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The Future of Credit Unions: Growth or Stagnation?

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PREFACE

The role of credit unions among financial institutions was significant in the decade of the 1960's and is likely to become more significant in the decade of the 1970's. Recognition of their achievements and the need for knowledge about their operations led to this study.

Specifically, the study revealed the major problems of credit unions, evaluated their competitive position among financial institutions, and evaluated the influence of current and proposed credit union legislation.

It is hoped that the study will provide some insight into the operations of credit unions and into the future direction of their growth and involvement.

The completion of this study has been contingent upon the efforts, aid, and cooperation of persons too numerous to mention individually. However, I would like to particularly thank various leaders in the credit union industry, especially Mr. Walter Polner, Director of Research for the Credit Union National Association, Mr. R. L. Shultz, Managing Director of the Arkansas Credit Union League, and Mr. Lyell Thompson, President of the UARK Federal Credit Union.

Also, I am especially indebted to Dr. Gene Lynch, the Chairman of my dissertation committee, and to the other committee members, Dr. Warren Banks and Dr. Doris Cook.

The guidance and encouragement of these individuals in completing the study were immeasurable.

Finally, I would like to thank Mrs. Cheryl Luckie for the unselfish contribution of her time to proofing the paper and to thank Lily, my wife, for her many contributions.

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CHAPTER I

INTRODUCTION

Definition

Credit unions are the most numerous of all financial institutions. In fact, there are about as many credit unions as all other financial institutions combined. As of February, 1970, there were 23,869 of them with a total of 21.8 million accounts.[1]

A credit union is probably the simplest and most specialized of all financial institutions. A Federal Reserve publication gives the following definition: "A credit union = a group of people + a common interest + pooled savings + loans to each other."[2] These four elements are essential ingredients of any credit union.

The common interest that unites credit union members can be an occupation, a well defined neighborhood, or an organization such as a union. Membership is obtained by purchasing one share that usually costs only five dollars. The credit union promotes thrift by encouraging members to

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[1]CUNA International, Inc., RE Statistical Bulletin, Report Prepared by the Research and Economics Department (Madison, Wisconsin, CUNA International, Inc., May, 1970), p. 173.

[2]Robert P. Black and Doris E. Harless, Nonbank Financial Institutions, Federal Reserve Bank of Richmond (Richmond, 1969), p. 44.

buy additional shares. Savings thus accumulated are then used to make mostly consumer loans to members at an interest rate of one percent or less per month on the outstanding balance.

According to the Federal Credit Union Act, a federal credit union is: "a cooperative association organized for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes."[3]

Cooperatives, sole proprietorships, partnerships, and profit-type corporations represent the four basic types of business organizations in the United States. Cooperatives are, however, generally organized as corporations. The basic operating distinction between them and other corporations is that a profit corporation attempts to provide a return for investors while a cooperative attempts to provide a return for patrons.[4]

A "true" cooperative is defined as:

> "an association, usually incorporated, with economic aims formed by and for persons or corporations having common needs, having approximately equal voice in its management, making approximately equal or proportional contribution to capital and deriving proportional services and benefits from it."[5]

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[3] Federal Credit Union Act, Statutes at Large, XLVIII, sec. 2, 750 (1934).

[4] Ewell Paul Roy, Cooperatives: Today and Tomorrow (Danville, Illinois: The Interstate Printers and Publishers, Inc., 1964), pp. 25-28.

[5] Ibid., p. 34.

Credit unions deviate from the "true" cooperative in that dividends are not distributed on a patronage basis.

A very descriptive definition of a credit union, and the one used in this study, is provided by Walter Polner, Director of the Research and Economics Department of the Credit Union National Association (CUNA). He states that:

> A credit union is a mutual help financial institution. Its members, united by a common bond, save their money together and make loans to each other at low interest rates. Each credit union is an independent, nonprofit corporation chartered and supervised by an agency either of the state or federal government. Its members own and operate it and only its members are served.[6]

Purpose

The general purpose of this study is to evaluate current operations and problems of credit unions. To survive in a free enterprise economy, a credit union and every other organization should satisfy a need and do it better than, or at least as well as, competing organizations. The past growth of credit unions would indicate that they have been successful in meeting some of the economy's needs. Their future success, however, is not guaranteed by past accomplishment. The environment in which they operate is changing and they must adapt to the changes.

Specific parts of the study will evaluate recent trends within the credit union industry, changes in the legal

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[6]"A Fifth of the Population: Credit Unions at the End of the 1960's in South Carolina." Prepared by the Research and Economics Department of CUNA International, Inc., (Madison, Wisconsin, 1970), p. 5.

environment of credit unions, and changes in their competitive position in obtaining and utilizing funds. Evaluation of these aspects of the credit union movement will hopefully provide some insight as to the future direction of this movement.

When first organized, credit unions provided a service that had not been generally available to the public. But since that time, other organizations have begun to offer similar services. Growth of competing organizations offering a multiplicity of loans and savings facilities raises questions about the future competitive position of credit unions.

Justification

A study of credit unions is justified at this particular time for several reasons. New credit union legislation, rapid changes in interest rates, inflation, stronger competition, and rising operating expenses are forcing credit unions to reevaluate their plans for the future. Their future success will depend upon how successfully they evaluate and adjust to these current changes.

Changing Economic Conditions

For the past few years, the United States has been involved in a struggle with inflation. During the two year period ending November 1, 1970, the consumer price index increased 14.9 percentage points. The causes of this inflation are complex, but certainly large federal deficits and liberal expansion of the money supply have been important factors.

In an effort to control inflation, the Federal Reserve changed to a tight money policy. Its use forced interest rates in the United States to their highest level in the 20th century. Corporate bonds rated Aaa by Moody's provided a yield of 5.51 per cent in 1967; in 1970, they provided yields of as high as 8.48 per cent. United States government long-term bond yields jumped from 4.85 per cent in 1967 to as high as 6.89 per cent in June, 1970.[7]

Stocks are generally considered a good hedge against inflation, but this was not true for the period 1966-1970. Rapid declines in stock prices changed both the yield and appeal of equities. The realization that stock prices go down as well as up has had a startling impact on many investors. This has resulted in changes in the flow of funds into various financial institutions.

Due to these and other changes in the economy, the relationship between credit unions and other financial institutions is changing rapidly. Banks, for example, are now in a better position to compete with credit unions for savings than they were in the past. Credit unions must recognize these changes and react to them.

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[7] Federal Reserve Bulletin, July, 1970, p. A 34.

Changing Competitive Positions

A changing economic environment has certainly influenced the relationship between credit unions and other financial institutions, but it is not the only factor affecting this relationship. Even without inflation, tight monetary conditions, and high interest rates, the competitive environment would be changing. The image of each type financial institution is changing. Banks and savings and loan companies have become more aggressive in the field of consumer credit. Also, credit unions have become more aggressive in seeking longer and larger loans. These changes in the policies of individual institutions are certainly causing changes in the competitive position of each type financial institution. Indications are that these changes will continue throughout the 1970's.

Changing Conditions Within Credit Unions

The National Credit Union Administration recently stated that:

> Many Federal Credit Unions today,..., are feeling the squeeze of rising operating costs and a reduction in the supply of capital with which to meet their members' credit needs.[8]

The problem of rising expenses is also complicated by the fact that some credit unions are becoming larger. As they increase in size, the influence of the larger credit union upon the credit union industry will certainly be felt.

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[8] Bureau of Federal Credit Unions Research Report No. 2 (Washington: U.S. Government Printing Office, July, 1969), p. 1.

Large credit unions have the power to finance research that could improve the services offered by all credit unions. They also have the power to become independent and stray from the ideals upon which credit unions were established. Regardless of the direction in which they move, their impact cannot be ignored.

Credit unions also are presently being influenced by recent and proposed legislative changes. During 1970, the Bureau of Federal Credit Unions was removed from the Department of Health, Education and Welfare. It became an independent government agency and was renamed the National Credit Union Administration. Congress also rushed through a bill which provided credit unions with deposit insurance. These two changes can certainly influence the future operations of credit unions.

Consumer Awareness

During the latter half of the 1960's, a consumer protection movement swept the country. It resulted in the passage of several statutes, including the Consumer Credit Protection Act of 1968. Consumers are the most important element in the economy, and they are now aware of it. Their desire for convenient credit is certainly going to result in more legislation in the 1970's. The consequence of the present consumer movement will influence the production, marketing and financing of goods. Thus, the future operation and relationship between financial institutions will be subject to yet another force.

Limitations

As is the case with most research, the scope and depth of this study is restricted by the limited time, finances, and other resources available to the author. These limitations are overcome by restricting the purposes of the study to those that can be researched properly.

As financial institutions, credit unions accept savings and extend credit to members. These functions are conducted in direct competition with all other financial institutions. In the case of the credit function, credit unions are also in direct competition with retailers. The emphasis in this study, however, is limited to the operations of financial institutions. The role of retailers is discussed only when it is convenient and helpful.

Statistical data on credit unions is published by the Federal Credit Union Administration and several credit union associations. Most federal data is related only to federal credit unions, but it is often more detailed than that published by associations. For this reason, some current credit union trends are determined solely on the basis of federal credit union data. This should not be considered a serious limitation because federally chartered credit unions represent fifty-five per cent of all credit unions and forty-nine per cent of assets. Also, unlike the forty-five per cent holding various state charters, the federal credit unions all operate according to the same basic rules and regulations.

The credit union movement is international in scope. A central organization known as the World Council of Credit Unions coordinates international activities. This study, however, is limited to the credit union movement within the United States.

Procedure

The overall structure of this study is from general to particular. Information from secondary data and a mail questionnaire provide a basis for analyzing the national condition of credit unions. Two additional questionnaires are used to obtain information on individual credit unions.

The study consists of nine chapters. Chapter one serves as an introduction. Chapter two contains a summary and brief evaluation of the various services provided by credit unions. Chapter three is a history of the credit union movement in the United States. Chapter four describes the present legal environment in which credit unions operate. It also contains a survey of proposed credit union legislation. Chapter five surveys changes in the competitive position of credit unions in relationship to other financial institutions. Chapter six is an analysis of current and future problems of credit unions. Chapter seven is an analysis of the operation of individual credit unions. Their operation and problems are compared with those revealed in chapter six. Chapter eight presents the operation and problems of a particular Arkansas credit union. The final chapter contains conclusions and a summary.

CHAPTER II

SERVICE PROVIDED BY CREDIT UNIONS

According to the definitions in chapter one, credit unions are financial institutions that have two basic functions. They accumulate the savings of members and extend credit at a reasonable cost. In addition, they offer a number of other services which complement and supplement these two basic functions. A list of all their major services is given below. Each is discussed in the order presented.

1. Extension of credit
2. Savings depository
3. Insurance
4. Financial counseling
5. Selling travelers checks and money orders
6. Payroll deductions
7. Cashing checks

Extension of Credit

Extension of credit and the accumulation of savings are the two most important services offered by credit unions. But as indicated by the following quote, some leaders in the credit union industry feel that the extension of credit is the single most important service a credit union can offer.

> "Credit unions were established in the Western Hemisphere with one very specific purpose in mind: to provide a source of low-cost personal (consumer) credit based chiefly on character."

Credit unions operate predominately in the field of consumer credit which, according to the Federal Reserve, includes:[2]

> ...all short-and intermediate-term credit that is extended through regular business channels to finance the purchase of commodities and services for personal consumption, or to refinance debts incurred for such purposes.

Consumer credit is divided into two basic types: instalment and noninstalment. "Instalment credit represents all consumer credit that is scheduled to be repaid in two or more payments."[3] "Noninstalment credit consists of those forms of consumer credit that are scheduled to be repaid in a lump sum."[4] Of the $122.5 billion in consumer credit outstanding in June 1970, $98.7 billion (80.6%) was instalment credit.[5] Graph I gives an overall picture of the growth of consumer credit from 1950 to 1970. Since 1950, total consumer credit has increased at an average annual rate of 8.65 per cent. Consumer instalment credit increased at a

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[1]Kent W. Francis, <u>Credit Union Dynamics</u> (Madison, Wisconsin: CUNA International, Inc., 1968), p. 23.

[2]Board of Governors of the Federal Reserve System, <u>Supplement to Banking and Monetary Statistics</u>. Section 16 on Consumer Credit (Washington: U.S. Government Printing Office, 1965), p. 2.

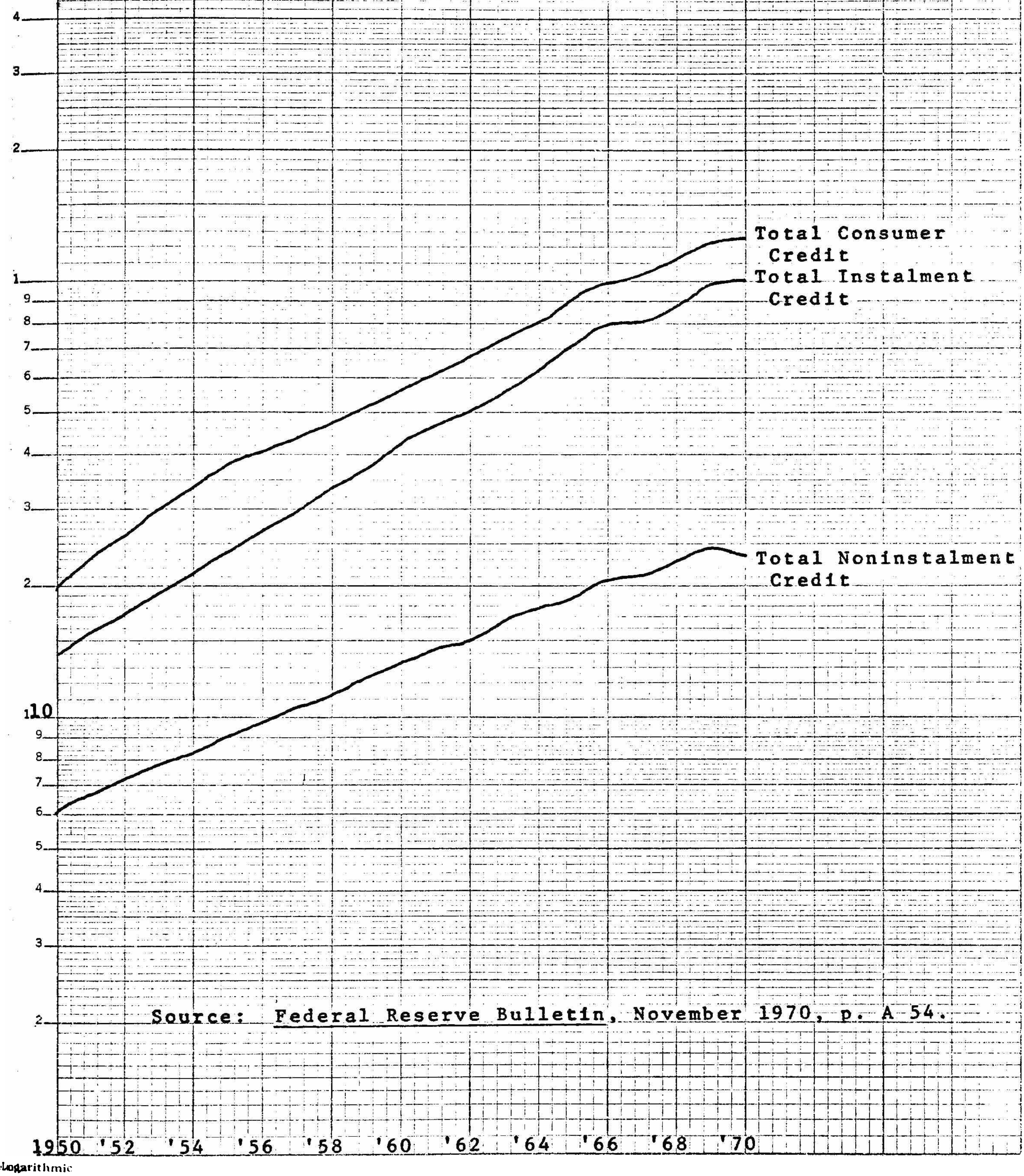
[3]*Ibid.*, p. 3.

[4]*Ibid.*, p. 5.

[5]*Federal Reserve Bulletin*, August 1970, p. A 54.

GRAPH I

GROWTH OF CONSUMER CREDIT
(Billions of Dollars)



Source: Federal Reserve Bulletin, November 1970, p. A 54.

TABLE I

TOTAL CONSUMER CREDIT
(In Millions of Dollars)

End of Period	Total	Instalment						Noninstalment			
		Total	Automobile Paper	Other Consumer Goods Paper	Repair and Modernization Loans[a]	Personal Loans		Total	Single-Payment Loans	Charge Accounts	Service Credit
1939	7,222	4,503	1,497	1,620	298	1,088		2,719	787	1,414	518
1941	9,172	6,085	2,458	1,929	376	1,322		3,087	845	1,645	597
1945	5,665	2,462	455	816	182	1,009		3,203	746	1,612	845
1950	21,471	14,703	6,074	4,799	1,016	2,814		6,768	1,821	3,367	1,580
1955	38,830	28,906	13,460	7,641	1,693	6,112		9,924	3,002	4,795	2,127
1960	56,141	42,968	17,658	11,545	3,148	10,617		13,173	4,507	5,329	3.337
1964	80,268	62,692	24,934	16,333	3,577	17,848		17,576	6,874	6,195	4,507
1965	90,314	71,324	28,619	18,565	3,728	20,412		18,990	7,671	6,430	4,889
1966	97,543	77,539	30,556	20,978	3,818	22,187		20,004	7,972	6,868	5,346
1967	102,132	80,926	30,724	22,395	3,789	24,018		21,206	8,428	6,968	5,810
1968	113.191	89,890	34.130	24,899	3,925	26,946		23,301	0,138	7,755	6,408
1969	122,469	98,169	36,602	27,609	4,040	29,918		24,300	9,096	8,234	6,970
1970-Nov.	123,915	99,790	36,011	28,378	4,133	31,268		24,125	9,345	7,757	7,023

[a]Holdings of financial institutions; holdings of retail outlets are included in "other consumer goods paper."

Source: Federal Reserve Bulletin, November 1970, p. A 54.

slightly higher rate (10.1%) while consumer noninstalment credit increased at a slightly lower rate (6.4%).

On March 31, 1970, credit unions had a total of $12,764 million in credit outstanding. Of this amount, $11,533 million (90%) was classified as instalment consumer loans.[6] The exact position of credit unions in the consumer instalment credit field is revealed in Graph II.

Credit unions are the fourth largest supplier of consumer instalment credit. As of November 1970, they supplied 12.4 per cent of the total. The largest suppliers are commercial banks, finance companies, and retail outlets respectively. These three suppliers are the sources of eighty-seven per cent of all consumer instalment credit.

Among financial institutions, credit unions are the third largest and fastest growing suppliers of consumer instalment credit. They account for 14.2 per cent of the total. The first and second largest suppliers are commercial banks and finance companies; they account for 48 and 35.7 per cent respectively of the total.[7] Table I and Table II provides more detailed information about the role of credit unions in the area of consumer credit.

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[6] CUNA International, Inc., RE Statistical Bulletin, A Report Prepared by the Research and Economics Department (Madison, Wisconsin: CUNA International, Inc., June, 1970), p. 70-211, (Mimeographed).

[7] Federal Reserve Bulletin, January 1971, p. A 54.

GRAPH II

SOURCES OF CONSUMER INSTALMENT CREDIT
(Billions of Dollars)

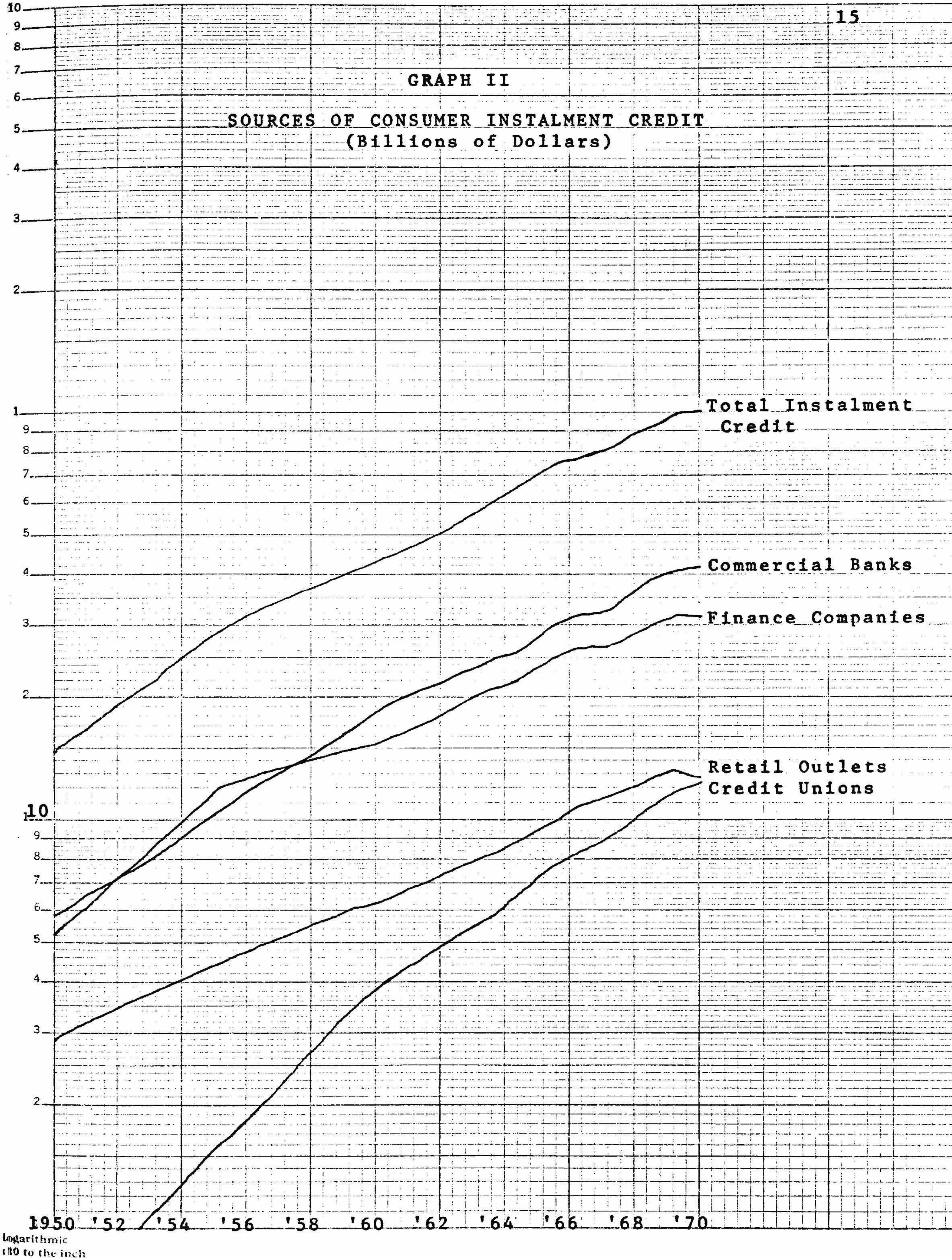

TABLE II

CONSUMER INSTALMENT CREDIT
(In Millions of Dollars)

End of Period	Total	Financial Institutions: Total	Commercial Banks	Finance Cos.[a]	Credit Unions	Miscellaneous Lenders[a]	Retail Outlest: Total	Automobile Dealers[b]	Other Retail Outlest
1939	4,503	3,065	1,079	1,836	132	18	1,438	123	1,315
1941	6,085	4,480	1,726	2,541	198	15	1,605	188	1,417
1945	2,462	1,776	745	910	102	19	686	28	658
1950	14,703	11,805	5,798	5,315	590	102	2,898	287	2,611
1955	28,906	24,398	10,601	11,838	1,678	281	4,508	487	4,021
1960	42,968	36,673	16,672	15,435	3,923	643	6,295	359	5,936
1964	62,692	53,898	25,094	21,641	6,340	823	9,794	329	8,465
1965	71,324	61,533	28,962	24,282	7,324	965	9,791	315	9,476
1966	77,539	66,724	31,319	26,091	8,255	1,059	10,815	277	10,538
1967	80,926	69,490	32,700	26,734	8,972	1,084	11,436	285	11,151
1968	89,890	77,457	36,952	29,098	10,178	1,229	12,433	320	12,113
1969	98.169	84,982	40,305	31,734	11,594	1,349	13,187	336	12,851
1970-Nov.	99,790	86,820	41,740	31,081	12,438	1,561	12,970	332	12,638

[a]Finance companies consist of those institutions formerly classified as sales finance, consumer finance, and other finance companies. Miscellaneous lenders include savings and loan associations, and mutual savings banks.

[b]Automobile paper only; other instalment credit held by automobile dealers is included with "other retail outlets."

Source: Federal Reserve Bulletin, November 1970, p. A 54.

Section 8 of the Federal Credit Union Act outlines the reasons for which a credit union can extend loans. The act states that:

> A federal credit union shall have power to make loans for provident and productive purposes, and upon such conditions and term as this act and its bylaws provide, and as the credit committee or a loan officer may approve.

The credit union laws of thirty-one states include a similar statement. In six other states, the laws are silent.

Once a loan is outstanding, all federal and most state credit unions are permitted to charge a rate of interest not to exceed one per cent per month on the unpaid balance. This has the effect of limiting interest charges to twelve per cent per year. The laws of Maine, Massachusetts, New Jersey, and Rhode Island do not specifically limit interest charges of credit unions. In Arkansas, the State Constitution places a ten per cent limit on the interest charges of any lender.

The twelve per cent limit on interest charges of credit unions makes them one of the cheapest sources of consumer credit. For example, Sears Roebuck Company charges an annual rate of twenty per cent for items purchased on its Easy Payment Plan, and Government Employees Financial Corporation charges an annual rate of thirty per cent on an eighteen month instalment loan of $300.00.[8]

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[8]Sears' Retail Instalment Contract states that if the finance charge exceeds $5.00, the annual percentage rate is 20% unless a different annual percentage rate is shown. The loan chart of Government Employees Financial Corporation states that a $300 loan paid off in 18 monthly payments of $20.89 provides an annual yield of 30 per cent.

Most state laws are silent with respect to the maturity of credit union loans. Federal law permits a maximum maturity of five years for unsecured loans. The maximum maturity for secured loans was increased from five to ten years in 1968. Federal law also limits the size of unsecured loans to \$2,500 when a credit union has unimpaired capital and surplus of \$100,000 or more. If capital is less than \$100,000, the unsecured loan limit is the greater of \$200 or 2½ per cent of unimpaired capital and surplus. With respect to loan size, most state laws are either similar to the federal law or leave the decision up to the board of directors of each credit union.

Increasing the length of maturity for secured loans from five to ten years has increased the opportunity of federal credit unions to make real estate loans. Whether they will choose to take advantage of the new opportunities remains to be seen. Most state credit unions, however, have always been free to make real estate loans, but they have chosen to limit their involvement in the area of real estate. As of July 31, 1969, all credit unions had a total of \$12,313 million in loans outstanding. Of this amount, \$1,259 million (10.2%) was classified as mortgage loans.[9] On July 31, 1970, \$1,313 million (9.8%) was classified as mortgage loans.[10]

The extension of credit is the most important service provided by credit unions. How efficiently this service is

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[9]RE Statistical Bulletin, Oct. 1969, p. 69-869.

administered is a major determinate of their future success. According to Kent W. Francis, former Special Projects Director of CUNA International, Inc.,:[11]

> The excellence of a credit union's lending service, as well as the cost of that service, is a credit union's unique contribution to its people in today's economy. Virtually nothing else that a credit union can offer is not being offered as well, or better, by commercial agencies.

Savings Depository

Promotion of thrift is the second most important function of credit unions. It is important for two primary reasons. First, according to the philosophy upon which credit unions were established, thrift is a desirable attribute and should be encouraged. Second, securing adequate savings is essential if credit unions are to achieve their primary function of extending credit. While borrowing is another source of loanable funds, it is not feasible without first acquiring savings. All federal and most state chartered credit unions can legally borrow up to fifty percent of their paid-in and unimpaired capital and surplus.[13]

Credit unions accept savings in two ways: shares and deposits. Selling shares is by far the most common means of obtaining funds. Shares represent ownership and they usually have a value of $5.00 each. Each member must purchase at least one share. The total number of shares

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[11] Francis, Credit Union Dynamics., p. 24.

[12] Comparative Digest of Credit Union Acts, (Madison, Wisconsin:: CUNA International, Inc., 1966), p. 80.

one person can own may be limited by a credit union's bylaws. Deposits are the second most important way in which funds are obtained; however, they cannot be accepted by federal credit unions.[13] The credit union law in New York also forbids accepting deposits. In twenty-eight states, credit union laws authorize the accepting of deposits; in fourteen other states, the laws are silent.[14] Deposits with a credit union are created in the same manner as are passbook saving with a commercial bank. Deposits do not constitute a form of ownership. To the credit union, they are a primary liability. Upon liquidation, deposits must be paid off before shares or other forms of debt.[15] Only the members of a credit union may make a deposit. In 1968, only \$.3 billion of the \$6.3 billion deposited in state chartered credit unions was in the form of deposits.[16]

The primary reason credit unions accept deposits is to overcome state laws limiting the amount of shares held by an individual. Since large credit unions are usually the ones most influenced by limitations on shares, they are the ones most interested in deposits. Some credit unions also

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[13] Robert G. Lincoln, New Savings Services: Credit Union Certificate and Deposit Programs, (Madison, Wisconsin: CUES Managers Society, 1969), p. 1.

[14] Comparative Digest of Credit Union Acts, p. 36.

[15] Lincoln, New Savings Services:, p. 1.

[16] State-Chartered Credit Unions 1968, Bureau of Federal Credit Unions, Washington D.C., 1968, p. 3.

permit minors to make deposits when state law forbids selling them shares.[17]

Certificates of indebtedness are the newest means by which credit unions obtain funds. In the legal sense, they represent borrowing and not deposits. They are promissory notes and upon liquidation must be paid off before shares. Certificates are issued when a creditor agrees to lend a specific sum of money for a specific time period. Depending upon the regulations of each credit union, the creditor may be a member or a nonmember. Most credit unions also permit lenders to withdraw funds without notice. Interest paid on the certificates may be the same as that paid on shares and deposits but generally it is higher. Credit union officials feel that the higher rate paid on certificates is partially offset because the credit union maintains no life savings insurance on the account and the account usually requires less bookkeeping effort. Credit unions in the United States first used certificates of indebtedness in 1968. They were introduced as a tool to compete for funds in a tight money market and as a means of overcoming the restriction that federal credit unions can not accept deposits.

Credit unions compete for what is generally termed over-the-counter savings. These have been defined as:[18]

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[17]Henry J. Guithues, "Standards of Financial Operating Efficiency of Missouri Chartered Credit Unions." (Unpublished Ph. D. Dissertation, St. Louis University, 1965), p. 37.

[18]Savings and Loan Fact Book '70 (Chicago: United States Savings and Loan League, 1970), p. 13.

> ...savings at financial institutions where transactions are conducted across a teller counter. This classification encompasses a broader segment of the economy than household savings; it also includes funds held by corporations and unincorporated business.

Table III reveals that the market for these funds is dominated by commercial banks and savings and loan associations. Table IV reveals that credit unions control only 3.4% of the market but that their share is increasing. During 1969 when money was tight, commercial banks suffered a net decline in their time and savings accounts for the first time since the 1930's, but credit unions had their largest absolute gain.[19] Nevertheless, Walter Polner, director of research for CUNA International, Inc., has warned that the growth of savings at credit unions is increasing at a decreasing rate, and that in absolute terms, the gap between the amount of savings held at banks and credit unions is increasing.[20]

To attract savings, credit unions have generally paid a higher return than have their competitors. This condition, however, is changing. The average annual rate paid by commercial banks on time and savings deposits increased from 2.56 per cent in 1960 to 4.87 per cent in 1969. Effective January 21, 1970, the maximum rate banks can pay

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[19] Savings and Loan Fact Book '70 (Chicago: United States Savings and Loan League, 1970), p.16.

[20] Walter Polner, "The Non-Saver" (Paper presented at the Regional Conference of the Savings Institutions Marketing Society of America, Colorado Springs, Colorado, July 11, 1969), p. 1.

TABLE III

OVER-THE-COUNTER SAVINGS, 1935-1970
(Billions of Dollars)

Year-End	Savings Associations[a]	Mutual Savings Banks[b]	Commercial Banks[c]	Credit Unions[d]	Postal Savings[e]	Total
1935	$ 4.3	$ 9.9	$ 12.9	+	$1.2	$ 28.3
1936	4.2	10.1	13.7	$ 0.1	1.3	29.4
1937	4.1	10.2	14.4	0.1	1.3	31.1
1938	4.1	10.3	14.4	0.1	1.3	30.2
1939	4.1	10.5	14.9	0.2	1.3	31.0
1940	4.3	10.7	15.4	0.2	1.3	31.9
1941	4.7	10.5	15.5	0.3	1.3	32.3
1942	4.9	10.7	16.1	0.3	1.4	33.4
1943	5.5	11.7	19.0	0.3	1.8	38.3
1944	6.3	13.4	23.9	0.3	2.3	46.2
1945	7.4	15.3	29.9	0.4	2.9	55.9
1946	8.5	16.8	33.4	0.4	3.3	62.4
1947	9.8	17.8	34.4	0.5	3.4	65.9
1948	11.0	18.4	34.7	0.6	3.3	68.0
1949	12.5	19.3	34.8	0.7	3.2	70.5
1950	14.0	20.0	34.9	0.9	2.9	72.7
1951	16.1	20.9	36.3	1.1	2.7	77.1
1952	19.2	22.6	39.0	1.4	2.5	84.7
1953	22.8	24.4	41.7	1.7	2.4	93.0
1954	27.3	26.4	44.4	2.0	2.1	102.2
1955	32.1	28.2	46.0	2.4	1.9	110.6
1956	37.1	30.0	48.2	2.9	1.6	119.8
1957	41.9	31.7	53.4	3.4	1.3	131.7
1958	48.0	34.0	59.6	3.9	1.1	146.6
1959	54.6	35.0	62.7	4.4	0.9	157.6
1960	62.1	36.3	66.8	5.0	0.8	171.0
1961	70.9	38.3	76.7	5.6	0.7	192.2
1962	80.2	41.3	91.0	6.3	0.5	219.3
1963	91.3	44.6	102.9	7.2	0.5	246.5
1964	101.9	48.8	116.6	8.2	0.4	275.9
1965	110.4	52.4	134.2	9.4	0.3	306.7
1966	114.0	55.0	146.3	10.1	0.1	325.5
1967	124.5	60.1	167.6	11.2	+	363.4
1968	131.6	64.5	184.9	12.3	...	393.3
1969	135.7	67.1	181.4	13.6	...	397.8
1970*	46.7	71.5	216.4	15.3	...	449.9

*Preliminary.
+Less than $50 million.
[a]All types of savings
[b]Regular and special savings accounts.
[c]Time and savings deposits of individuals, partnerships and corporations.
[d]Shares and members' deposits.
[e]Outstanding principal and accrued interest on certificates of deposit.
Sources: Federal Home Loan Bank Board; Federal Reserve Board.

TABLE IV

CREDIT UNIONS'SHARE OF OVER-THE-COUNTER SAVINGS, 1936-1969

(Billions of Dollars)

Year-End	Total Savings	Savings in Credit Unions	Per cent of Savings in Credit Unions
1936	$ 29.4	$0.1	.34
1937	31.1	0.1	.32
1938	30.2	0.1	.33
1939	31.0	0.2	.65
1940	31.9	0.2	.63
1941	32.3	0.3	.93
1942	33.4	0.3	.90
1943	38.3	0.3	.78
1944	46.2	0.3	.65
1945	55.9	0.4	.72
1946	62.4	0.4	.64
1947	65.9	0.5	.76
1948	68.0	0.6	.85
1949	70.5	0.7	.99
1950	72.7	0.9	1.2
1951	77.1	1.1	1.4
1952	84.7	1.4	1.7
1953	93.0	1.7	1.8
1954	102.2	2.0	1.9
1955	110.6	2.4	2.2
1956	119.8	2.9	2.5
1957	131.7	3.4	2.6
1958	146.6	3.9	2.7
1959	157.6	4.4	2.8
1960	171.0	5.0	2.9
1961	192.2	5.6	2.9
1962	219.3	6.3	2.9
1963	246.5	7.2	2.9
1964	275.9	8.2	3.0
1965	306.7	9.4	3.0
1966	325.5	10.1	3.1
1967	363.4	11.2	3.1
1968	393.3	12.3	3.1
1969	398.0	13.6	3.4

Source: Saving and Loan Fact Book '70, p. 15.

on passbook savings was raised to 4.5 per cent. Table V reveals that they may pay much higher returns on time deposits of various lengths and sizes. For comparison with the rates paid by credit unions, the 4.5 per cent banks can pay on passbook savings is preferable. During 1960, savings and loan associations paid an average of 3.86 per cent on passbook savings. In 1969, the average was 4.78 per cent.[21] This rate was only slightly below the 5.25 per cent dividend paid by the average federal credit union.[22]

All federally-chartered and most state-chartered credit unions are permitted by regulation to pay a maximum annual dividend of six per cent if their earnings justify it.[23] While legal limits also exist on the rates banks and savings and loan institutions can pay, some limits are being removed.[24] As of June 24, 1970, the ceiling on rates banks can pay for thirty to fifty-nine day time deposits in amounts of $100,000 or more was suspended.

Indications are that competition for savings will intensify. If the yield on savings continues to increase, credit unions will certainly be forced to alter their

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[21] Savings and Loan Fact Book 1970, p. 17.

[22] National Credit Union Administration, 1969 Annual Report of the Federal Credit Union Program, (Washington, D. C.: Government Printing Office, 1970), p. 12.

[23] U. S. Department of Health, Education, and Wêlfare, Federal Credit Union Bylaws, (Washington, D. C.: Government Printing Office, 1968), p. 10.

[24] "Banker Says Nixon Has Decided to Suspend Deposit Interest-Rate Ceilings Eventually," The Wall Street Journal, May 20, 1970, p. 3.

TABLE V

MAXIMUM INTEREST RATES BANKS MAY PAY ON TIME AND SAVINGS DEPOSITS
(Per Cent Per Annum)

Type of Deposit	Effective Date: July 20, 1966	Sept. 26, 1966	Apr. 19, 1968	Jan. 21, 1970
Saving deposit	4	4	4	4½
Other time deposits[a]				
Multiple maturity:[b]				
30-89 days	4	4	4	4½
90 days-1 year				5
1 year to 2 years	5	5	5	5½
2 years and over				5¾
Single-maturi y				
less than $100,000:				
30 days to 1 year				5
1 year to 2 years	5½	5	5	5½
2 years and over				5 3/4
$100,000 and over:				
3 -59 days			5½	(c)
60-89 days			5 3/4	(c)
90-179 days	5½	5½	6	6 3/4
180 days to 1 yr.				7
1 year or more			6¼	7½

Source: Federal Reserve Bulletin, June 1971, p. A 11.

[a]For exceptions with respect to certain foreign time deposits, see Bulletins for Oct. 1962, p. 1279; Aug. 1965, p. 1084; and Feb. 1968, p. 167.

[b]Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

[c]The rates in effect beginning Jan. 21, through June 23, 1970, were 6¼ per cent on maturities of 30-59 days and 6½ per cent on maturities of 60-89 days. Effective June 24, 1970, maximum interest rates on these maturities were suspended until further notice.

Note:

Maximum rates that may be paid by member banks are established by the Board of Governors under provisions of regulation Q; however, a member bank may not pay a rate in excess of the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located. Beginning Feb. 1, 1936, maximum rates that may be paid by nonmember insured commercial banks, as established by the FDIC, have been the same as those in effect for member banks.

present operating policies. Unlike banks and savings and loan institutions, credit unions cannot easily pass the higher cost of funds onto credit customers, Under present laws, they cannot charge more than one per cent a month on loans.

Insurance

CUNA Mutual Insurance Society, an affiliate of CUNA International, is the official insurance agent within the credit union industry. Originally organized in 1935 as a part of CUNA International, the society has grown faster than its parent and has become more independent.[25]

Through contracts with CUNA Mutual, credit unions can obtain two basic types of group insurance for their members: credit life and life savings. Both types are paid for by the credit union rather than by individual members. Of course, members indirectly pay the cost since amounts available for dividends would presumably be higher were the premiums not paid by the credit union. Insurance benefits should, however, be considered when comparing the different rates charged by credit unions and other financial institutions.

Credit life insurance, or loan protection insurance as it is sometimes called, covers the borrower. If he should become totally and permanently disabled before age sixty or die before age seventy, his loan balance is paid off by CUNA

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[25]Jack Dublin, Credit Unions Theory and Practice, (Detroit, Wayne State University, 1966), p. 160.

Mutual. Most credit unions provide this insurance, although the amount of coverage varies.[26] The maximum coverage is $10,000 for each member.[27]

Life savings insurance is for the protection of savers. CUNA Mutual has introduced several life savings insurance plans the most popular of which is outlined below. This plan provides one dollar of life insurance for each dollar deposited by members between the ages of six months and fifty-five years. For deposits made after reaching age fifty-five, the following coverage is provided:[28]

AGE	COVERAGE
55 through 59	75¢ insurance for each $1.00 deposited
60 through 64	50¢ insurance for each $1.00 deposited
65 through 69	25¢ insurance for each $1.00 deposited

A baby receives 25¢ insurance for each $1.00 deposited until he reaches 6 months. Then he gets DOLLAR for DOLLAR coverage.

The maximum coverage is $1,000 or $2,000 depending upon the contract with CUNA Mutual. Another plan available through CUNA Mutual but not yet approved in all states is known as Life Saving Decreasing Term. This plan provides a young depositor with a term insurance policy three times as large as his deposit. As he gets older, his insurance coverage decreases. Other plans available through CUNA Mutual

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[26] International Credit Union Yearbook 1968 (Madison, Wisconsin: CUNA International, Inc., 1968), p. 50.

[27] Guithues, p. 55.

[28] CUNA Mutual Insurance Society, "Here is Why We Like Our Credit Union," Madison, Wisconsin. (Brochure).

include such things as accidental death benefits and partial or total disability benefits. The size premium a credit union is willing to pay is the primary determinate of its life saving insurance plan.[29]

For a person thirty-four years of age, a $2,000 term life insurance policy costs approximately $10.20 a year. When he reaches age forty-one, the rates would increase. At age fifty-nine, he would pay $71.76 a year.[30] If a thirty-five year old person had savings of $2,000 in a credit union paying a five per cent dividend, he would receive annual dividend payments of $100 plus $2,000 in term insurance. If the cost of a $2,000 term insurance policy is added to his dividends, his annual benefits amount to $110.20. This works out to an annual return of 5.51 per cent.

CUNA Mutual does not have a monopoly on insurance in the credit union industry. Such well known companies as John Hancock, Minnesota Mutual, Prudential, and Pilot Life write insurance for credit unions. Their various plans have different options that change both the coverage and costs of the insurance.[31]

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[29]CUNA Mutual Insurance Society, "Your Credit Union Share-Savings Bring Extra Protection to You and Your Family," Madison, Wisconsin. (Brochure).

[30]The term life insurance rates are based on rates provided by J.C. Penney Life Insurance Company for $10,000 policy.

[31]Bureau of Federal Credit Unions, Handbook for Federal Credit Unions, (Washington, D.C.: Government Printing Office, 1969), p. 36.

The willingness of rival companies to insure large credit unions at lower rates than CUNA Mutual has created conflicts between credit unions and CUNA Mutual. The Michigan Credit Union League purchased its own insurance business in 1968, and took most of the credit union insurance business in Michigan away from CUNA Mutual.[32] But despite its difficulties, CUNA Mutual claims that it has ninety per cent of the industry's loan protection insurance.[33]

Changing economic conditions, however, are creating new problems for all firms that write credit union life insurance. The original purpose of life savings insurance was to provide members with a needed service and to provide credit unions with a selling point. For years it achieved both purposes well. But more recently, some credit unions have been dropping life savings insurance. They are motivated to do so for several reasons. Other insurance plans, both group and permanent, have become more readily available to workers. In some cases, they are even cheaper. Second, credit unions are under mounting pressure to pay higher returns on savings.[34]

One thing in the favor of credit union insurance is that the average age of credit union savers has been reasonably stable for the past decade. If the average age had

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[32]Dublin, pp. 164-7.

[33]Ibid., p. 169.

[34]Minnesota League of Credit Unions, "A Look at Thrift Certificates, Term Deposits, and Certificates of Indebtedness for Credit Unions in Minnesota," Saint Paul, 1970, p. 13.

moved up, life savings insurance rates would have been adjusted upward to allow for the increased risk.[35] Table VI shows that credit unions also have a small percentage of older depositors. As a percentage of total expenses, federal credit unions report that life savings and credit life insurance have been rather constant since 1965.[36]

Financial Counseling

Through the use of personal interviews, pamphlets, films, and other media, credit unions attempt to improve their members' ability to use their income and credit wisely. Pamphlets and films are used to tell members how to work out a family budget and how to plan for emergencies. Members are also informed of how to select and finance the purchase of durable goods and homes. During the period 1960-1968, federal credit unions allocated two per cent of their budget to education, advertising, and promotion.[37]

For several years, the National Credit Union Administration has operated two programs designed to educate consumers, especially those in the low-income group. The program is known as "Project Moneywise." Selected credit union members are given a four-week course. The course

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[35] International Credit Union Yearbook 1969, (Madison, Wisconsin: CUNA International, Inc., 1969), p. 48.

[36] Annual Report of the Bureau of Federal Credit Unions, 1964-1969.

[37] CUNA International, Inc., RE Statistical Bulletin, A Report Prepared by the Research and Economics Department (Madison, Wisconsin: CUNA International, Inc., May, 1970), p. 70-173 (Mimeographed)

TABLE VI

SAVINGS ACCOUNTS, BY AGE OF HEAD OF HOUSEHOLD

	Institutions		
Age	Credit Unions %	Banks %	Savings & Loans %
Under 25	4.94	8.41	6.97
25 - 34	29.59	20.02	11.46
35 - 44	26.55	16.62	16.01
45 - 54	20.57	16.97	19.38
55 - 64	14.16	16.22	19.15
65 or older	4.19	21.76	27.03
Total	100.00	100.00	100.00

Source: International Credit Union Yearbook 1969, p. 47.

includes shopping trips during which members visit stores in different sections of a city to compare prices and finance charges. During 1968, 2,000 persons completed the course.[38] In 1969, only 750 persons were trained.[39] A maximum of $300,000 for 1970 and $1,000,000 for 1971 was authorized by Congress for the program.[40]

A second program introduced in 1968 is known as "Operation Credit-Worthy." This plan is designed to encourage merchants to extend more credit to low-income and ghetto families. It was first introduced at thirteen limited-income credit unions in Boston.[41] After credit union members were given financial counseling and had established a satisfactory credit record at the credit union, they were referred to local retailers. Merchants would then extend them credit, usually a $50 revolving credit account.[42]

The need for financial counseling is undeniable, but the role of credit unions seems small and likely to become smaller. Intensive competition and rising expenses

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[38] 1968 Annual Report of the Bureau of Federal Credit Unions, p. 2.

[39] 1969 Annual Report of the Federal Credit Union Program, p. 48.

[40] W. M. O'Brien, "Credit Unions to Serve Low-Income Families," The Credit World, (January, 1969), pp. 15 & 16.

[41] A credit union may be classified as "Limited-Income" if the estimated median family income of the group forming the credit union's field of membership is not more than two-thirds of the median family income in the area in which the group is located.

[42] 1968 Annual Report of the Bureau of Federal Credit Union, pp. 2 & 3.

are likely to prevent any major expansion of credit unions' counseling services. Also, other agencies are rapidly moving into the field. The National Commission on Consumer Finance was established in 1968 to help inform and protect consumers. The state of California, among others, has established a Division of Consumer Affairs. The chairman of the Federal Trade Commission recently announced that the FTC will employ its resources in close co-operation with state and local government to insure that consumers will be advised of their rights and ways to protect themselves under federal as well as state and local laws.[43] And according to a recent survey, consumer education in schools has increased 81.2 per cent since 1967.[44]

Selling Travelers Checks and Money Orders

All federal and most state chartered credit unions are permitted to sell travelers checks and money orders. From the credit unions' point of view, the primary advantage of selling them is the goodwill created. It could also be profitable, but most laws forbid credit unions to charge more than the cost of extending this service.[45]

ICU Service Corporation (ICUS), a subsidiary of CUNA International, Inc., is responsible for providing money

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[43] Parker Nash, "Washington Wire," *The Credit World* (March, 1970), p. 26.

[44] "Consumer Business Trends," *The Credit World* (June, 1970), p. 31.

[45] *Handbook for Federal Credit Unions*, p. 36.

order and travelers check services to credit unions. The corporation issues its own money orders but uses American Express Travelers Cheques. At the end of June, 1970, 211 credit unions were handling ICUS money orders, and 654 were using its travelers check program.

Individual credit unions must remit money order sales when sales reach $300, or once a week, whichever comes first. This arrangement provides them with a small float.[46] Proceeds from the sale of travelers checks are remitted daily directly to American Express.[47]

Payroll Deduction

This service permits credit unions to efficiently collect funds, both for savings and loan repayment. It is offered by over fifty per cent of all credit unions.[48] By offering payroll deduction, credit unions have an opportunity to improve their operating efficiency and to provide members with a desirable service. Statistics also reveal that credit unions with payroll deductions usually have fewer delinquent loans, and as a rule, members save more regularly.[49]

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[46] ICU Services Corporation, "Money Orders," (Madison, Wisconsin: ICU Services Corporation, 1969), (Brochure).

[47] ICU Services Corporation, "Travelers Cheques," (Madison, Wisconsin: ICU Services Corporation, 1969),(Brochure).

[48] International Credit Union Yearbook 1969, p. 27.

[49] Department of Health, Education, and Welfare, Credit Manual for Federal Credit Unions, (Washington, D.C.: Government Printing Office, 1969), p. 10.

As a means of collecting savings and repaying credit union loans, payroll deduction is destined to become a much more valuable service. More than 463 credit unions added it to their list of services in 1968 and 494 added it in 1969. Payroll deduction can also be used by credit unions to make third party payments for members. Some credit unions are already experimenting with payroll deduction as a means of making utility, insurance and rent payments for members. Its future use for this purpose, however, is rather uncertain. According to Mr. James T. Coats, a regional director of the National Credit Union Administration, the credit unions in his region have not been successful in their attempts to use payroll deductions for the purpose of making third party payments. The benefits of their programs did not justify the efforts necessary to offer the service.[50]

Cashing Checks

Cashing checks contributes to the goodwill of the credit union. It keeps members in contact with the credit union and can thus stimulate more savings and borrowing. These advantages must, however, be weighed against the operating problems incurred by offering the service. Volunteer credit union workers may not be prepared to spend their time on this service, and security precautions may cause unjustifiable difficulties.

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[50]James T. Coats, interview held during meeting of the Georgia Credit Union League, Savannah, Georgia, April 16, 1971.

CHAPTER III

HISTORY OF CREDIT UNIONS IN THE UNITED STATES

This chapter contains a brief history of the development of credit unions in the United States. Their past performance provides some insight into their future activities. Their development has been erratic but persistent.

Origin of Credit Unions

The exact origin of the idea of a credit union type organization is not clear. Many possible origins have been suggested, but none of them have been completely accepted. The most commonly accepted belief is that the modern credit union movement began around 1850 in Germany. Two plans were developed at that time, and both contributed to the development of credit unions in the United States. The founders of both plans were motivated by the tragic conditions that resulted from an 1847-48 depression. Famine was widespread, and the working class had neither jobs nor sources of credit.

One plan was originated by Herman Schulze, a judge, who organized the first Schulze society in 1848. It took a few years for the organization to develop fully, but then the spread of Schulze societies was rapid. Some basic principles of these societies were:

1. Members contributed the needed capital.
2. Membership was open to members of any occupation.
3. Character was the most important basis for membership.
4. High dividends were used to promote savings.
5. Loans were extended for very short periods.
6. The liability of members was unlimited. This was changed in 1889.[1]

In addition to making loans, the Schulze societies performed other banking activities such as cashing checks and discounting bills of exchange. In 1859, they organized a central bureau that promoted the movement and maintained statistical data.

During the same year in which Schulze organized his first society, Frederick W. Raiffeisen also organized a cooperative society. Over a period of fourteen years he modified his plans which resulted in the development of the Raiffeisen societies. With one major exception, they were similar to the Schulze societies. The Schulze societies were primarily interested in economic advances. The Raiffeisen societies attempted to improve both the economic and moral conditions of its members. Thus, Raiffeisen societies became more involved with charity, social reform and politics.[2]

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[1]Eridis W. Smith, "Federal Credit Unions: Origin and Development," Social Security Bulletin, XVIII (November, 1955), pp. 3 & 4.

[2]*Ibid*., p. 5.

Credit Unions in North America

Canada

In 1900, the credit union movement crossed the Atlantic to North America. A French-Canadian by the name of Alphonse Desjardins was responsible for establishing the first credit union in North America. His interest in credit unions was stimulated by the poor economic conditions of French-Canadians in the Province of Quebec.

To learn about the cooperative credit societies of Schulze, Raiffeisen, and others Desjardins traveled to Europe. After an extensive study of these plans, he returned to Canada in 1900 and established a credit cooperative. He referred to the organization as La Caisse Populaire, or the Peoples Bank.[3] Desjardins modified the European plans by increasing the emphasis upon savings and by limiting the field of membership by requiring a common bond.

United States

In 1908, Desjardins traveled to the United States and organized a credit union in Manchester, New Hampshire. In 1909 the state legislature granted the organization a special charter.

In his 1908 annual report, Pierre Jay, bank commissioner for the Common Wealth of Massachusetts, discussed the poor credit facilities available to consumers.[4] To

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[3] M. R. Neifeld, Neifeld's Manual on Consumer Credit (Easton, Penn.: Mack Publishing Company, 1961), p. 356.

[4] Smith, "Federal Credit Unions:," p. 5.

stimulate the state legislature's interest in the need for better credit facilities, he invited Desjardins and Edward A. Filene, a Boston merchant, to speak before the banking committee of the state legislature. Due in part to the influence of these men, a credit union act was passed by the Massachusetts legislature.[5] Passage of the Act on April 21, 1909, initiated the credit union movement in the United States and set a precedent for future legislation.[6]

Passage of legislation provided a legal basis on which credit unions could expand. Support for the movement was generated by many organizations and individuals. One of the movement's most enthusiastic supporters was The Russell Sage Foundation. The Russell Sage Foundation provided the movement with many forms of promotional material. Roy F. Bergengren, a Boston attorney, was another devoted supporter of the credit union movement. In 1920, Bergengren prepared a model credit union law that became the basis for credit union legislation in forty-one states.[7] One year later, he was appointed the first managing director of the newly organized Credit Union National Extension Bureau.[8]

The primary objective of this organization was to speed the passage of credit union legislation and to promote

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[5]Neifeld, Neifeld's Manual, p. 357.

[6]Smith, "Federal Credit Unions:," p. 6.

[7]Guithues, "Missouri Chartered Credit Unions," p. 15.

[8]Neal Riden, Jr. "An Economic Analysis of the operations and Federal Tax Exempt status of Credit Unions." (Unpublished Ph. D. Dissertation, University of Wisconsin, 1964), pp. 28 & 29.

the organization of credit union leagues.[9] During the fourteen years in which the bureau was active, twenty-eight states passed credit union laws.

Expansion of the credit union movement was slowed due to the need to obtain legislation in each individual state. Table VII indicates when the various states passed credit union legislation. Alaska, Delaware, Hawaii, Nevada, Wyoming, South Dakota, and the District of Columbia have not passed a credit union law. Passage of a federal credit union law in 1934 eliminated many of the problems created by state politics.

Growth of Credit Unions After 1934

Passage of federal legislation made it possible to organize credit unions in every state. As a consequence, supporters of the movement could devote more of their effort to organizing new credit unions rather than lobbying for legislation in the various states.

In 1934, the Credit Union National Extension Bureau was succeeded by the Credit Union National Association. The new association, with Roy Bergengren as its managing director, struggled to promote its cause during the difficult conditions of the Great Depression.

Federally-Chartered Credit Unions

The Federal Credit Union Act provided for the chartering of credit unions by the federal government in

[9] Credit Union Yearbook, 1962, p. 35.

TABLE VII

PASSAGE OF STATE CREDIT UNION LAWS

	State	Date Credit Union Law Passed
1.	Massachusetts	1909
2.	New York	1913
3.	Texas	1913
4.	Wisconsin	1913
5.	Rhode Island	1914
6.	North Carolina	1915
7.	Oregon	1915
8.	South Carolina	1915
9.	Utah	1915
10.	Nebraska	1919
11.	New Hampshire	1921
12.	Virginia	1921
13.	Kentucky	1922
14.	Indiana	1923
15.	Tennessee	1923
16.	Louisiana	1924
17.	Mississippi	1924
18.	New Jersey	1924
19.	Georgia	1925
20.	Illinois	1925
21.	Iowa	1925
22.	Michigan	1925
23.	Minnesota	1925
24.	West Virginia	1925
25.	Alabama	1927
26.	California	1927
27.	Missouri	1927
28.	Arizona	1929
29.	Florida	1929
30.	Kansas	1929
31.	Maryland	1929
32.	Montana	1929
33.	Arkansas	1931
34.	Colorado	1931
35.	Ohio	1931
36.	Pennsylvania	1933
37.	Oklahoma	1933
38.	Washington	1933
39.	Idaho	1935
40.	North Dakota	1935
41.	Connecticut	1939
42.	Maine	1939
43.	Vermont	1941
44.	New Mexico	1945

Source: State-Chartered Credit Unions 1968, Bureau of Federal Credit Unions, 1968, p. 13.

every state and province of the United States. This has resulted in a dual system of state and federally-chartered credit unions. Such an arrangement, however, is not uncommon among financial institutions. Commercial banks and savings and loan associations are chartered by both state and federal governments.

In content, the federal law was similar to the model act drafted by Roy Bergengren and adopted by most states. Its major contributions were that it opened the field in every state to credit unions and it added federal wealth and prestige to the movement.

Responsibility for carrying out the provisions of the Federal Credit Union Act was first placed with the Farm Credit Administration. Through the efforts of this agency's field representatives, the number of federal credit unions grew rapidly. In 1941, when responsibility for supervision of federal credit unions was transferred to the Federal Deposit Insurance Corporation, there were 4,228 federal credit unions in operation.[10]

Table VIII reveals both the growth of federal credit unions and the transfers of responsibility for their supervision to various government agencies. Only during the years of World War II did the number of federal credit unions decline. During this period the war effort reduced both

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[10] Social Security Bulletin Annual Statistical Supplement, 1967, U.S. Department of Health, Education, and Welfare, 1967, p. 128.

TABLE VIII

SUPERVISION AND GROWTH OF FEDERAL CREDIT UNIONS, 1934-1970

Supervision Agency	Year	Number of Operating Federal Credit Unions	Number of Members
Federal Credit Union	1934	39	3,240
Section established in	1935	772	119,420
Farm Credit Adminis-	1936	1,751	309,700
tration	1937	2,313	483,920
	1938	2,760	632,050
	1939	3,182	850,770
	1940	3,756	1,127,940
	1941	4,228	1,408,880
Federal Credit Union	1942	4,145	1,356,940
Section transferred to	1943	3,938	1,311,620
Federal Deposit Insurance	1944	3,815	1,306,000
Corporation	1945	3,757	1,216,625
	1946	3,761	1,302,132
	1947	3,845	1,445,915
Bureau of Federal Credit	1948	4,058	1,628,339
unions established and	1949	4,495	1,819,606
placed under Federal	1950	4,984	2,126,823
Security Administration	1951	5,398	2,463,898
	1952	5,925	2,853,241
Bureau of Federal Credit	1953	6,578	3,255,422
Unions placed in Depart-	1954	7,227	3,598,790
ment of Health, Educa-	1955	7,806	4,032,220
tion, and Welfare	1956	8,350	4,502,210
	1957	8,735	4,897,689
	1958	9,030	5,209,912
	1959	9,447	5,643,748
	1960	9,905	6,087,378
	1961	10,271	6,542,603
	1962	10,632	7,007,630
	1963	10,955	7,499,474
	1964	11,278	8.092,030
	1965	11,543	8,640,560
	1966	11,941	9,271,967
	1967	12,210	9,873,777
	1968	12,698	10,497,000
	1969	13,046	111,191,000
National Credit Union Administration established as an independent government agency.	1970	13,107[a]	11,461,000[a]

Source: CUNA International and the National Credit Union Administration.

[a]March, 1970.

the interest and resources available for promoting credit unions. After World War II growth continued.

Since 1934, four government agencies have been responsible for the promotion and regulation of federal credit unions. In 1970, however, Congress created a new federal agency known as the National Credit Union Administration (NCUA).[11] As an independent agency, NCUA should be more flexible and better able to react to sudden difficulties.

Although the first federal credit union was chartered twenty-five years after the first state chartered credit unions, there are now more federal than state credit unions. Their number continues to grow while the number of state chartered credit unions has recently declined.

State Chartered Credit Unions

In 1934, thirty-eight states had credit union laws, and there were 2,489 operating state chartered credit unions.[12] It was more than three decades before federally-chartered credit unions overcame this substantial headstart.

In thirty-one states, supervision of state-chartered credit unions is in the hands of bank supervisory authorities. The remaining states have placed credit unions under the supervision of various other state agencies. For example, North Carolina has an administrator of Credit Unions within the Department of Agriculture, and North Dakota has a State

[11]"Capital Events," The Credit Union Magazine, December, 1970, p. 19.

[12]International Credit Union Yearbook 1969, p. 37.

Credit Union Board, Within each state, the development of credit unions has moved forward in response to local conditions. In some states, their development progressed faster than in others.

Three states, Illinois, Michigan, and Wisconsin, contain 26.4 per cent of all state chartered credit unions. These same states contain only 6.6 per cent of all federally-chartered credit unions.[13] Variations in the development of credit unions in the various states have been due to many factors. While most state credit union laws are basically similar, some have encouraged the development of credit unions more than others. Also, in some states opposition to credit unions has been stronger. In some geographic localities, the economic environment has been more suitable for the development of credit unions.

During 1969 and early 1970, the number of state-chartered credit unions declined. They now account for only forty-five per cent of all credit unions. However, in terms of membership and assets, state credit unions are more important than federal. They have forty-eight per cent of the membership and fifty-one per cent of the assets of all credit unions in the United States.[14] Graphs III, IV, and V indicate how much state chartered credit unions have

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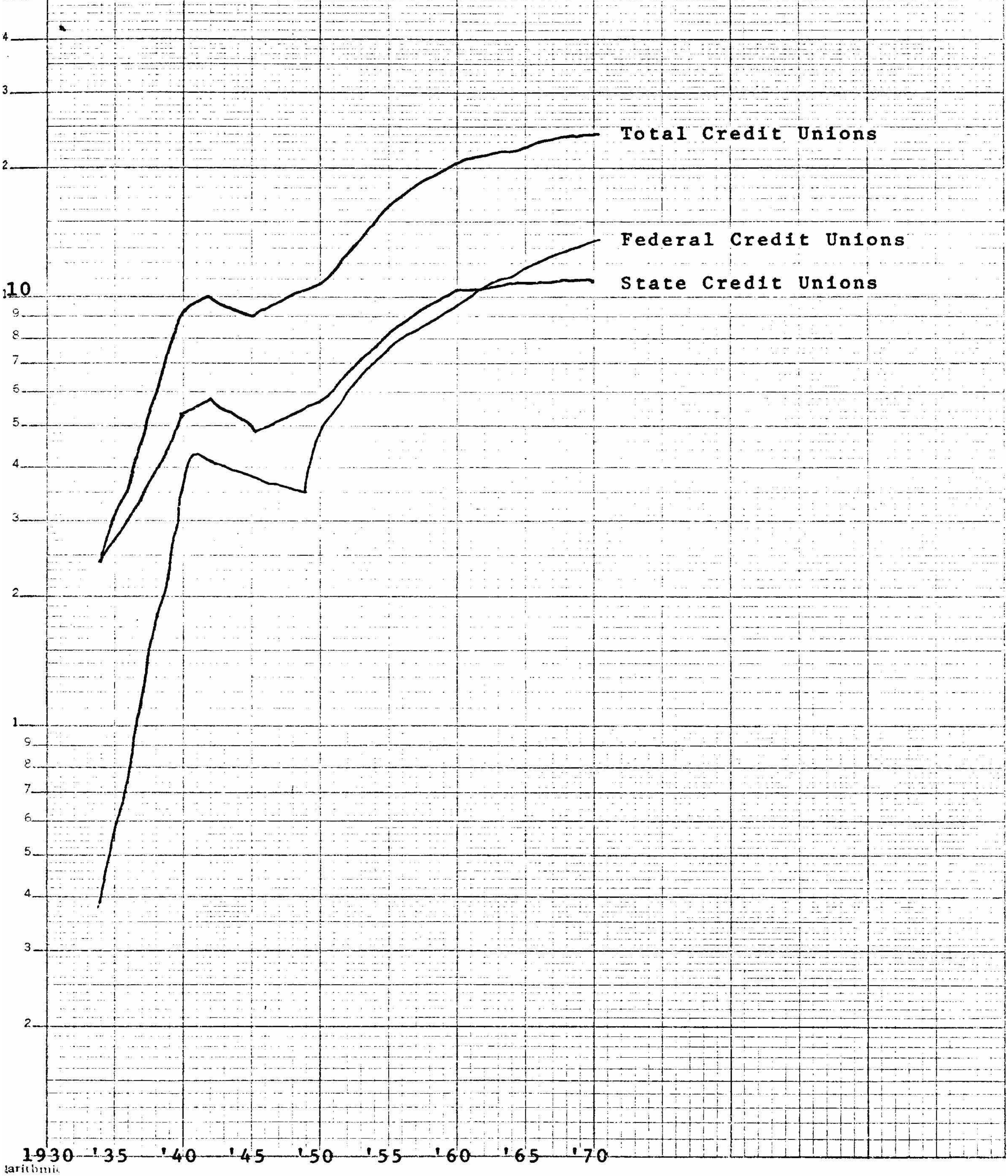
[13] State Chartered Credit Unions 1968, p. 20.

[14] CUNA International, RE Statistical Bulletin, May , 1970, pp. 70-181.

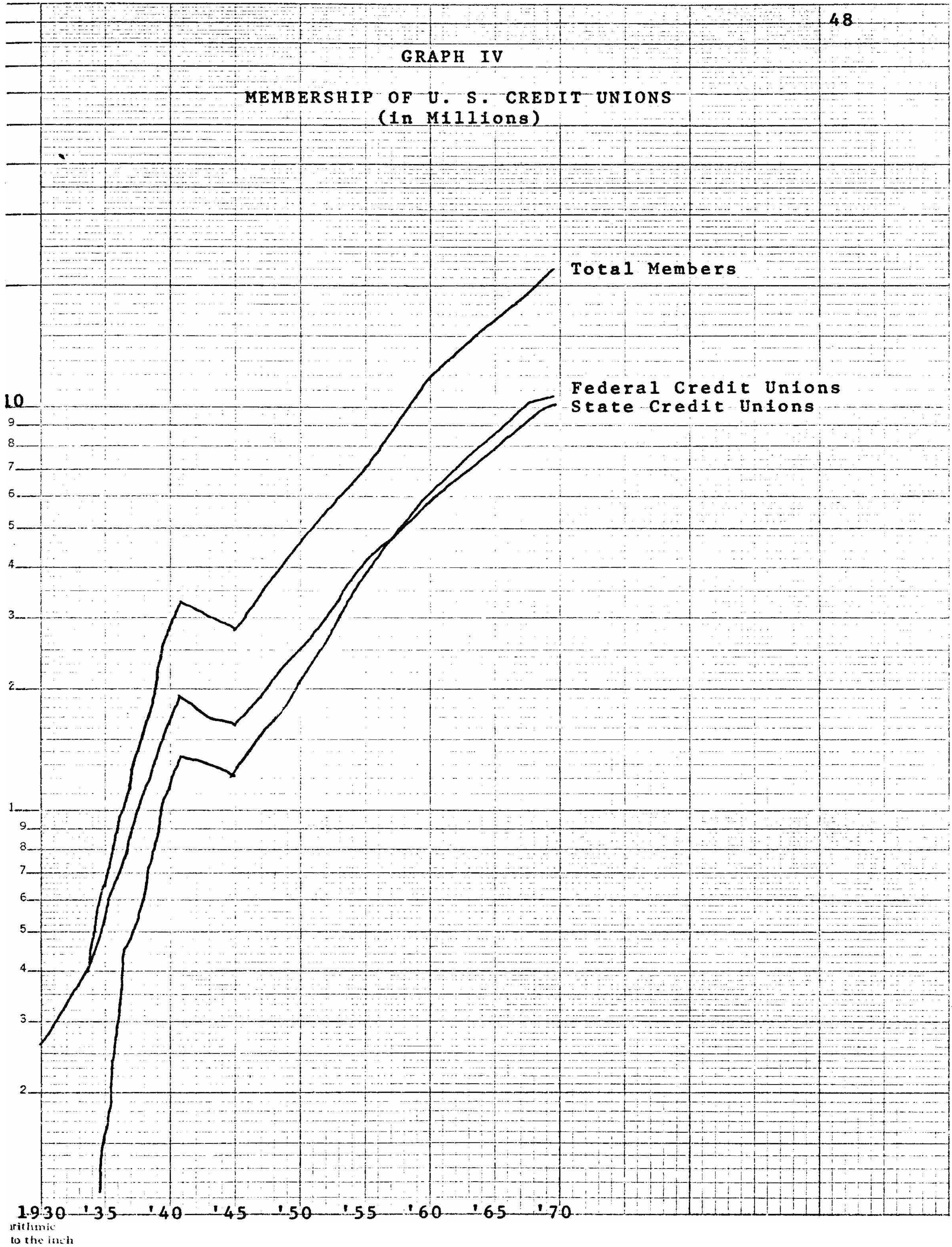
GRAPH III

NUMBER OF ACTIVE CREDIT UNIONS IN THE U. S.
(in Thousands)



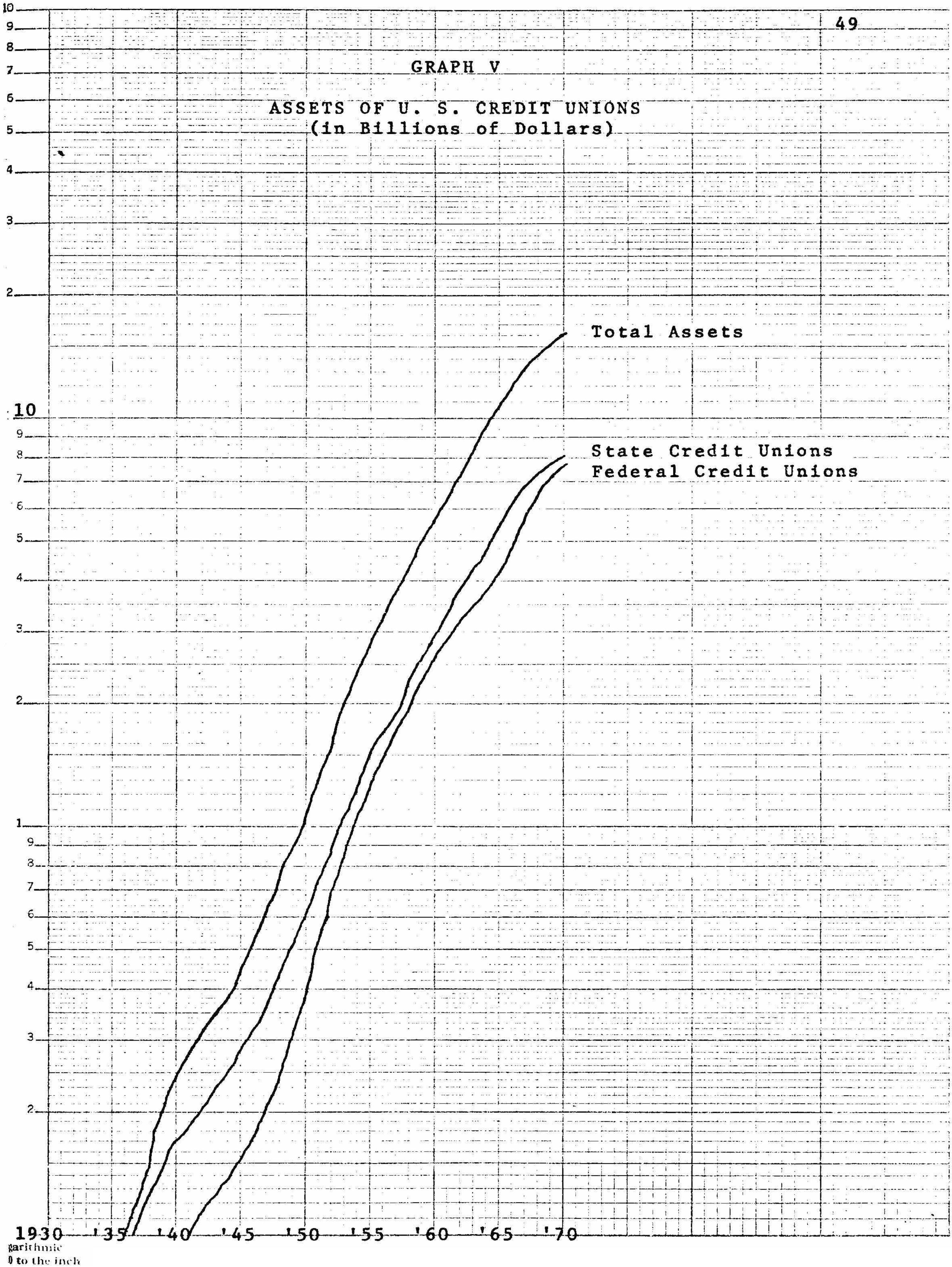
GRAPH IV

MEMBERSHIP OF U. S. CREDIT UNIONS
(in Millions)



GRAPH V

ASSETS OF U. S. CREDIT UNIONS
(in Billions of Dollars)



progressed and how their performance compares with that of federally chartered credit unions.

Structure of the Credit Union Movement

To accomplish its objective of providing services to members, the credit union industry established an eleborate organizational structure. Diagram I illustrates that individual members are the foundation of the industry. Members form credit unions which usually associate themselves with a league. A league is a voluntary association of credit unions in any state, province, country, or other governmental unit having its own laws.[15] The league is supported by dues collected from member credit unions. Most leagues are associated with the Credit Union National Association (CUNA). This organization is supported by dues from affiliated credit union leagues. The objective of CUNA is to promote the growth and development of credit unions by providing assistance to credit union leagues.

To accomplish its objectives, CUNA has established several operating departments and three affiliated associations. Diagram I illustrates how CUNA fits into the organizational structure of the national credit union industry, and it gives a brief description of the function of each component.

The international efforts of the credit union movement are conducted through an association known as the

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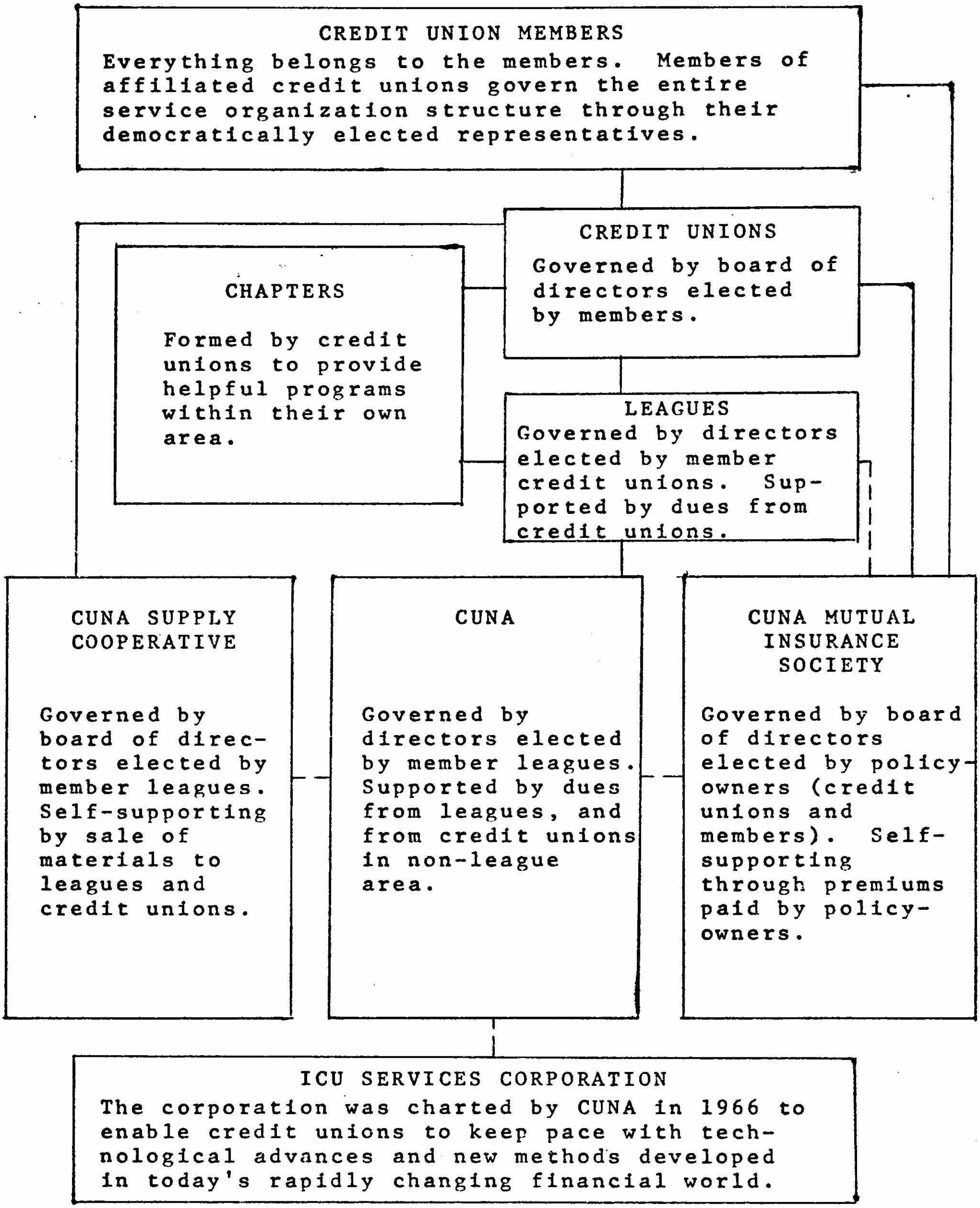
[15] _International Credit Union Yearbook 1968_, p. 55.

DIAGRAM I

STRUCTURE OF THE CREDIT UNION MOVEMENT



World Council of Credit Unions. This association was created in 1970 as a result of several organizational changes within the credit union industry. Prior to 1970, international activities were conducted through the Credit Union National Association, International (CUNA International). But as a part of the 1970 reorganization, the term international was dropped and CUNA International became simply CUNA. CUNA is a member of the World Council of Credit Unions.

There are now more than 51,000 credit unions operating in at least seventy countries. They have a total of 36 million members and assets of $18 billion. Membership and assets are growing at an average annual rate of eleven per cent. Credit unions in the United States dominate the movement with approximately forty-seven per cent of all credit unions, fifty-six per cent of total membership, and seventy-eight per cent of all assets.[16]

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[16]International Credit Union Yearbook 1969, pp. 4-18.

CHAPTER IV

LEGISLATIVE ENVIRONMENT OF CREDIT UNIONS

Introduction

The purpose of this chapter is to evaluate past, present, and expected future changes in the legal environment of credit unions. Legal change has a direct impact upon the operation of credit unions and is thus one of the most important determinants of their future success or failure. Legal changes are particularly important at the present time because of the passage of two major pieces of credit union legislation in 1970. These 1970 changes were on a scale comparable with those of 1934, when the Federal Credit Union Act was passed.[1]

This chapter is structured in the order of past, present, and future changes in legislation. A summary of past changes is presented first. It provides a basis upon which to realistically estimate future changes. Past changes also reveal legal trend that may or may not change in the future.

The impact of 1970 legislation upon the operation of credit unions should be very significant. Legislation creating an independent regulatory agency for federal credit

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[1]Federal Credit Union Act, Statutes at Large, XLVIII, 1216 (1934).

unions and federal share insurance have put credit unions on the threshold of new opportunities. Presentation and analysis of these statutes constitutes a major portion of this chapter.

Future changes in credit union legislation are already being formulated, and some have been introduced in Congress. The last section of this chapter analyzes proposed legislative changes of the 1970's.

The contents of this chapter are limited primarily to federal credit union legislation. This, however, is not a major limitation. Forty-four states have credit union laws, and in most cases they are very similar to the federal law.[2] Also, some federal legislation, the new federal share insurance for example, can be used by state chartered credit unions. To supplement data from secondary sources, the results of a questionnaire sent to fifty-two credit union leagues are used. The questionnaire contained several questions on past, present, and future credit union legislation.

Changes in Federal Credit Union Legislation

This section presents a brief summary of changes in the Federal Credit Union Act. Since its original passage in 1934, the Act has been amended many times. A complete summary of those parts of the Act which have been amended

[2]The six states without a credit union law are Alaska, California, Delaware, Hawaii, Nevada, South Dakota, and Wyoming.

most frequently is presented in Appendix A. The most important of these changes are discussed in this section.

Five provisions in the original act--supervising agency, unsecured loans, maturity of secured loans, investments, and area covered--have been changed three or more times. Responsibility for supervision of federal credit unions has changed several times. This supervision is now the responsibility of the new National Credit Union Administration (NCUA). Probably the largest absolute change has taken place in the limitation placed on unsecured loans. The limit on such loans has been increased by fifty times the original amount. In 1934, unsecured loans were limited to fifty dollars; today the limit is 2,500 dollars. Another area that has undergone substantial change is the time limitation on the maturity of secured loans. In 1934, the limit was two years. In 1971, it was ten years. In the area of investments, credit unions have been given more and more flexibility. The area covered by the federal act has gradually been expanded to include all United States possessions.

Changes in the credit union act have been more numerous in some years than in others. In 1937, 1946, and 1959, six or more provisions of the act were changed. In 1959, the act was almost completely rewritten. In only nineteen of the past thirty-six years, no major changes in the act were made.

The number and kind of changes made in the credit union act provide insight into the legal environment of credit unions. It is an environment of change. The changes also establish trends that serve as guides to future changes.

One trend indicated by changes in the Federal Credit Union Act is that of more freedom and flexibility in the making of loans and investments. If the trend continues, credit unions of the future will be permitted to make larger and larger unsecured loans, and the maturity of loans will become longer and longer. In the area of investments, it is conceivable that credit unions will eventually be permitted to purchase high-grade corporate bonds or even stocks.

Changes in the federal act also indicate a trend of more internal flexibility for credit unions. For example, credit unions now have a more flexible dividend policy, fewer restrictions on approving loans, and more freedom to offer new services.

These changes in credit union legislation have provided credit unions with the advantages that accompany freedom and flexibility, but they also may have created disadvantages. As credit unions expand their operations, they come into more direct competition with other financial institutions. As a result of this, the possibility of adverse legislation becomes greater.

Share Insurance for Credit Unions

On October 19, 1970, President Nixon signed into law legislation creating a federal share insurance program for both state and federal credit unions.[3] This piece of legislation is probably the single most important change in credit union legislation since 1934. The law provides $20,000 in insurance for accounts in credit unions.

History of Share Insurance

Share insurance for credit unions is not a new topic. For years it has stimulated many lively discussions both within and outside the credit union industry. A brief look at past attempts to obtain share insurance provides additional insight into the legislation recently passed. Since the late 1940's, the credit union industry has officially opposed a government share insurance program for credit unions. Opposition to any such program was expressed in information gathered in several surveys of the industry and by resolutions adopted by CUNA's board of directors.[4] The major reason for opposition to a share insurance program was strongly stated in a release sent by one of the industry's strongest supporters to credit union leagues.[5]

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[3]Federal Credit Unions Insurance, Statutes at Large, LXXXIV, 994 (1970).

[4]Atkins, William A. "Share Deposit Insurance," (paper presented at the annual meeting of the Kentucky Credit Union League, Paducah, Kentucky, June 12, 1964).

[5]Bergengren, Roy F. "Honesty Insurance," (an unpublished release to state credit union leagues, April, 1954, p. 2).

> An FDIC system for credit unions would put us under rigid Federal control. It would eliminate the small credit union. It would throttle our growth and take away our independence of operations, which is our greatest asset.

A letter sent by the California Credit Union League to a California Congressman expressed the same opposition.[6]

> It is the opinion of credit union leaders that Share Deposit Insurance is unnecessary and undesirable, that it would restrict the ability of credit unions to organize and do a good job.
>
> ...the restrictions which would come with Share Deposit Insurance would take away much of their [credit unions] democratic processes. If Deposit Insurance would carry all the risks, good management, efficient administration and initiative would be discouraged.

A study conducted in 1963 by the research department of CUNA revealed that 59.82 per cent of the league directors were opposed to a government program of share insurance.[7] Opposition to insurance was reaffirmed by league representatives in 1965. This position was still supported by CUNA as recently as February, 1970.[8] Late in 1970 when passage of a share insurance bill seemed imminent and CUNA was forced to support one of three possible bills, a

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[6]California Credit Union League (Letter sent to California Congressman stating opposition to proposed Federal Credit Union Share Insurance, Oakland, Calif., March 19, 1956)

[7]Polner, Walter, "Attitudes of League Director Toward Stabilization Plans and a Government Program of Share Insurance." (Unpublished report to the Stabilization Committee of CUNA, Inc., Detroit, Michigan, Nov. 6, 1963).

[8]"Share Insurance Amendment Rejected by 52-35 Vote," Federal Credit Union Observer, February, 1970, pp. 1 & 2.

representative of the New York State Credit Union League made the following statement.[9]

> We felt we were going to get share insurance like it or not. It's like having to take a bottle of castor oil. You don't want it but you know you have to take it.

Supporters of share insurance have been persistant in their efforts to obtain passage of necessary legislation. Share insurance bills were introduced into the United States Congress in 1947, 1951, 1953, 1955 and three in 1970. The 1955 and the 1956 Economic Report of the President contained messages urging Congress to pass a share insurance program for credit unions. Both reports, however, contained a warning that if such a system were established it would be essential to maintain proper safeguards, limitations, and supervision that go with such a program.

Support for share insurance was centered in NCUA. Mr. Deane Gannon, former acting administrator of NCUA and now deputy administrator, has frequently expressed his support for share insurance. He contended that federal credit unions were the only federally-chartered thrift institution that did not provide Federal insurance protection and that the insurance was needed.

Mr. Gannon's contention was that while credit unions did have a very small loss ratio--.25 per cent of loans since organization--the individual depositor was still not

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[9] "A Big Share of Safety for Credit Unions," Business Week, September 5, 1970, p. 26.

sufficiently protected. To support this view, he pointed out that in 1969 thirty-six federal credit unions liquidated at a loss to shareholders. A recent study showed that an individual had lost as much as $3,400 in a liquidating credit union. The study also showed that most people who had lost money had incorrectly thought that their accounts were insured.[10]

The years of controversy over share insurance suddenly reached a dramatic climax in 1970. On May 11, 1970, Senator Wallace F. Bennett and thirteen other senators introduced a share insurance bill in the Senate. Only nine days later Representative Wright Patman introduced his share insurance bill in the House. On the same day Representative William Widnall introduced in the House the same bill Senator Bennett had introduced in the Senate. The bill introduced by Representative Patman was very similar to a model share insurance act drafted by CUNA and was thus supported by CUNA leaders. Patman's bill was favored because it required smaller annual premiums, designated credit unions as federal depositories for both appropriated and non-appropriated funds, did not mention reserve requirements, and authorized credit unions to accept deposit accounts.[11]

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[10] U.S. Congress, Senate, Committee on Banking and Currency. Federal Share Insurance for Credit Unions, before a subcommittee of the Committee on Banking and Currency, on S. 3822, 91st Cong., 2d sess., 1970, pp. 1-9.

[11] "Capital Events.," Credit Union Magazine, June, 1970, pp. 19 & 20.

The bill introduced by Senator Bennett moved through the congressional process faster than the Patman bill. It was passed by Congress on October 5 and was signed into law by President Nixon on October 19, 1970.[12]

Provisions of the Share Insurance Law

This section contains a brief summary of the basic provisions of the Federal Share Insurance Law. A more detailed outline is given in Appendix B. Some of the basic provisions are:

1. Creation of a National Credit Union Share Insurance Fund in the Treasury of the United States to insure credit union shareholders' deposits up to $20,000.

2. Annual assessments based on aggregate share deposits in a credit union to finance the fund with authority for the fund to borrow up to $100,000,000 from the U.S. Treasury.

3. Mandatory participation by federal credit unions, with state-chartered credit union participation optional.

4. Administration of the fund by the administrator of NCUA.

The provision to insure deposits up to $20,000 pertains to any type of account in which credit unions permit members to deposit savings. In the case of most state-chartered credit unions, it includes deposit accounts. An insured account may be held by an individual, jointly, or by a corporation.[13]

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[12] Federal Credit - Insurance, Statutes at Large, LXXXIV, 994, (1970).

[13] Ibid.

To obtain insurance, a credit union must send an application to NCUA. In the case of federal credit unions, this is mandatory. NCUA may accept or deny the application. If the application of a federal credit union is denied, its charter will be suspended or revoked unless it can meet requirements for insurance within one year.

Once insured a credit union must file a certificate showing the total amount of member accounts at the close of the preceding year. The credit unions must then pay an annual premium equal to 1/12 of one per cent of the total amount of member accounts at the close of the preceding year.

If the insurance fund has no outstanding obligations and the fund equals or exceeds the normal operating level of one per cent of the aggregate amount of the member accounts in all insured credit unions, the administrator of NCUA may reduce premiums. If the fund's expenses exceed income in any given year, the administrator may levy a special premium charge not to exceed 1/12 of one per cent.

Fear of additional regulation was one of the reasons credit unions have traditionally opposed share insurance. As of June, 1971, however, these fears have not been substantiated. Insured credit unions are not being subjected to any additional examinations or reports. Instead, current reports and examinations are being modified to meet requirements. Insured credit unions are required to display a sign indicating that accounts are insured.

As of May 15, 1971, 9,947 credit unions had been approved for insurance coverage, 9,625 federal and 322 state credit unions. On that same date, 430 federal and 12 state credit unions had been denied coverage. Insured credit unions contained $7,518,533,049 in accounts, approximately fifty per cent of the accounts in all credit unions.[14]

Impact of Share Insurance on Credit Unions

Since the first credit union was insured only five months prior to this writing, it is impossible to obtain objective results on its influence. Nevertheless, there is much speculation and some incomplete studies. When asked what he thought about the law's impact, President Nixon said:[15]

> This legislation will probably have a more dramatic effect on the credit union movement in the United States than any other piece of legislation since the original Federal Credit Union Act was passed in 1934.
>
> It certainly will affect the operations of participating credit unions. It may well affect members' savings habits. It will destroy competitors' claimed "advantage" of their institution being the safest place to save. It could result in state-chartered credit unions converting to federal charters. And it could affect the area of future growth.

Wilfred S. MacKinnon, president of CUNA, said:[16]

> The law will have profound effect on the credit union movement and will materially add to our efforts in protecting our members' accounts. We can always seek changes in the law if our experience under the program shows them to be necessary.

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[14] "Capital Events," Credit Union Magazine, June, 1971, p. 20.

[15] "Share Insurance for U.S. Credit Unions," Credit Union Magazine, December, 1970, p. 14.

[16] Ibid.

In eight telephone interviews with credit union managers, CUNA found that managers had mixed impressions. The Majority felt that the insurance was an asset. Insurance had instilled greater confidence in members and savings accounts were growing at a faster rate. The Texas Credit Union League conducted a preliminary study of twenty-one insured and seven uninsured credit unions. In the first two months of 1971, shares in the insured credit unions grew at a rate almost twice as large as in the uninsured credit unions.[17]

To obtain additional information on how share insurance would influence the development of credit unions, a question on share insurance was included in the questionnaire sent to fifty-two credit union leagues as a part of this study. Thirty-one directors (60%) returned the questionnaire. They were asked how they felt share insurance would influence the development of credit unions in their league. Of the thirty directors who answered this question, eighteen (60%) felt that the overall impact of share insurance would be good. They indicated that members would have more confidence in the credit union. As a result, accounts would increase and credit unions as a whole would grow faster than they would without the insurance.

Four of the thirty directors felt that share insurance would have little or no influence on the development

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[17]"Some Early Reactions to Share Insurance," Credit Union Magazine, May, 1971, pp. 4-7.

of credit unions. They argued that share insurance was mostly psychological, that it was not a big factor in determining where people save, and that most credit union members had the mistaken belief that credit unions have always been insured.

Five directors had mixed feelings about share insurance. In general they felt that it would instill greater confidence in credit unions and thus stimulate greater savings. They also felt, however, that in the process credit unions would be subjected to some adverse influences. For instance, the increase in savings might come from increases in the larger rather than the smaller savings accounts. The larger accounts are more sensitive to interest rate charges. A rapid increase in savings could also cause credit unions to relax their loan policies. They may then be faced with more delinquent loans. Share insurance could also force the liquidation of many small credit unions and discourage the formation of others.

Only two directors felt that share insurance would definitely have an adverse influence on credit unions. One felt that the stimulated growth of large deposits would not be healthy for credit unions. The other expressed a fear that the federal government was forcing its influence upon the industry and that the result would be liquidation of weak credit unions.

In summary, most directors felt that share insurance will stimulate the growth of credit unions. Members would be stimulated to increase the size of their accounts, and this would provide credit unions with more funds to lend. Some directors fear, however, that excessive liquidity may become a problem that forces credit unions into bad decisions. A relative increase in large credit union accounts may also make credit unions more subject to problems created by interest rate differentials between financial institutions. A final objection was that weaker credit unions will be forced to liquidate.

National Credit Union Administration

The idea of removing the Bureau of Federal Credit Unions from within the Department of Health, Education, and Welfare was conceived by Representative Wright Patman. In May of 1967, he declared that federal credit unions should be administered by an independent government agency. Since banks and savings and loans were administered by an independent agency, he argued that this should also apply to federal credit unions. His idea rapidly gained support from within the credit union industry.

On November 15, 1967, Representative Patman introduced an independent agency bill in the House. No action was taken on the bill, and it died when Congress adjourned. On January 3, 1969, Patman introduced a modified version of his original bill. Senator John Sparkman introduced an identical bill in the Senate. Congress voted overwhelmingly in favor of the bill. President Nixon signed the bill into law on March 10, 1970.[18]

The act established the National Credit Union Administration as an independent government agency responsible for the supervision of federal credit unions. The Administration consists of a National Credit Union Board and an Administrator. The Board serves in an advisory capacity to the Administrator. It consists of a chairman and one representative from each of the six federal credit union regions. Members are appointed by the President of the United States, with the Senate's approval, to serve six-year terms. The Administrator is appointed by and serves at the pleasure of the President with the Senate's approval. He assumes all the functions of the former Director of the Bureau of Federal Credit Unions.

Just what impact the new agency will have upon the development of credit unions is yet to be seen. The agency has been established only one year and three months, and it has had an Administrator only nine months. On September 14, 1970, Lieutenant General Herman Nickerson, Jr. (U.S. Marine Corp. Retired) was sworn in as Administrator. Mr. Nickerson was not the first choice of leaders within the credit union industry. CUNA had strongly urged President Nixon to appoint Mr. Deane Gannon, Director of the Bureau of Federal

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[18] National Credit Union Administration, Statutes at Large, LXXXIV, 49 (1970).

Credit Unions for seventeen years.[19] Of the seven men recommended by CUNA to President Nixon, only one was appointed to the National Credit Union Board.

CUNA has pointed out that the new agency will subject credit unions to more political influence and greater government regulation and control. In spite of these problems, the new agency is viewed as progress for credit unions. The new agency should be able to coordinate activities and solve problems easier than the Bureau could while it was under the supervision of HEW. The agency also adds increased public recognition and prestige to credit unions. The new agency should also increase the competitive status of credit unions among financial institutions.[20]

As an independent agency, NCUA will encounter many problems. It must fight for recognition among more than one hundred independent federal agencies. Competing financial institutions have also indicated that they are now more concerned about the challenge of credit unions. Future credit union legislation will face more challenges from competing institutions.[21]

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[19]"CUNA Asks President to Name Deane Gannon to Top Position," Federal Credit Union Observer, April, 1970, p.11.

[20]"Capital Events," Credit Union Magazine, December, 1970, pp. 19 & 20.

[21]*Ibid*., p. 20.

Future Changes in Credit Union Legislation

If 1970 is any indication of what will happen to credit union legislation in the next decade, the change will be phenomenal. There are several indications that significant changes will be made in the next ten years. One major bill has already been introduced in Congress and others are being prepared.

At its 1968 annual meeting, CUNA initiated a seven-man committee to evaluate and recommend changes in the Federal Credit Union Act. To collect data for its report, the committee conducted hearings during 1968-69. At least forty-one league and sixty-three credit union representatives were heard.[22] To provide direction for its work, the committee established two objectives. They sought first to make the federal act more flexible and free of what they considered unnecessary details. Their second objective was to broaden the range of services federal credit unions provide.[23]

The committee's report contained sixty-one recommended changes in the Federal Credit Union Act. These recommendations have been endorsed by the Legal and Legislative and the Executive committees of CUNA and were approved in concept by league representatives at the 1970 annual meeting of CUNA.

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[22]"To Reveal Report Calling for Board Changes in Federal Act," Federal Credit Union Observer, February, 1970, p. 6.

[23]"Broader Credit Union Services Would Result From Revised Act," Federal Credit Union Observer, March, 1970, p. 1.

CUNA is now in the process of drafting legislation for introducing the recommended changes in Congress.[24] A complete summary of the proposed changes is presented in Appendix C.

By the committee's own admission, most of the proposed changes are of a permissive nature.[25] They would give credit unions more flexibility to provide services to members. In the area of corporate powers, the proposals include a broader definition of credit unions, removal of restrictions on the borrowing powers of credit unions, an easier method of organizing a credit union, and a request that credit unions be allowed to serve as fiscal agents for state and local governments.

In the area of membership, the reports contain a proposal to seek legislation to assure the broadest possible interpretation of the term "common bond." The objective is to make credit unions available to as many people as possible. According to other proposals, entrance fees should be permissive rather than mandatory, and the board of directors of each credit union would be given the power to levy an annual membership fee.

In the area of savings and deposits, there is a proposal to permit the board of directors of each credit union to raise the par value of shares to a maximum of

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[24]Robert W. Davis, Director of the Dept. of Legislation & Government Affairs, (Letter, January 11, 1971).

[25]"More Flexible Law Would Give Members More Services," <u>Federal Credit Union Observer</u>, March, 1970, p. 7.

twenty-five dollars and to pay dividends at their discretion. Another proposal authorizes credit unions to establish checking accounts for members. Federal credit unions would also be permitted to accept deposits and to pay variable interest rates on different types of deposits.

With respect to loans, the proposals contain several major changes. The federal act would be amended to eliminate the requirement that the interest rate be inclusive of all charges incidental to making the loan. The administrator of NCUA would also be given the a thority to raise the one per cent limit on interest charges. Restrictions on loan maturity and unsecured loan limits would be removed. Credit unions would also be permitted to issue credit cards.

Permissiveness is certainly the correct description of the proposals. If passed they would permit credit unions to expand the common bond to include many more members, increase the charge on loans, accept deposits, act as fiscal agent for all levels of government and offer many other services. If credit unions did offer all these services, it would be difficult to distinguish them from mutual savings banks or mutual savings and loan associations.

In the questionnaire sent to credit union leagues as part of this study, directors were asked how they would change the present legal environment of credit unions. Of the thirty-one responses, eight made no comment. Of the twenty-three that answered the question, seven felt that no changes were needed at the present time. Eight of those responding suggested some form of liberalization in current laws. The most frequently mentioned change (three times) was for a broadening of the common bond concept. Only two of the eight seeking liberalization indicated that they would like to see credit unions become full-service institutions. Checking services, credit cards, and higher interest on loans were each specifically mentioned only once. Four respondents indicated the need for an independent supervisory agency in each state for state-chartered credit unions. As of 1966, thirty-one states placed credit unions under the supervision of bank supervisory authorities.

The results of this survey indicate that the proposals drafted and approved by CUNA do have support at the league level. Nevertheless, the feeling of complacency also seems to be very strong. Efforts for change seem to be coming from a few leagues. The Wisconsin Credit Union League, for example, has already introduced state legislation seeking many of the changes CUNA has suggested for federal legislation. Broadening the common bond concept seems to have considerable interest and support at the league level while offering checking account or credit card services seem to stimulate little interest.

National Credit Union Bank

Currently there is a bill in Congress to create a National Credit Union Bank. Representative Patman first introduced the bill on July 13, 1970; but it died from lack of action. He reintroduced the bill on March 30, 1971,[26] The bill has the full support of CUNA.[27] The bill proposes to create a national bank for credit unions similar in purpose to the Federal Reserve Banks for commercial banks and the Federal Home Loan Banks for savings and loan institutions.

As proposed by the current bill, the bank would be empowered to: (1) make loans to its member credit unions for liquidity purposes; (2) discount notes of its member credit unions; (3) provide a national interlending service for its members;(4) sell its own certificates of indebtedness; (5) lend assistance in the rehabilitation and stabilization of credit unions needing such help; (6) help in the orderly and expeditious liquidation of solvent credit unions; and (7) assist various supervisory agencies to improve the financial stability of credit unions generally. With these powers the bank would increase the flexibility, liquidity and stability of credit unions.

All credit unions insured by NCUA would be required to join the bank. Uninsured state credit unions could apply for membership if they so desired. Members would be required to make an initial subscription to the bank's stock equal to one per cent of their assets. A federal credit

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[26]U.S., Congressional Record, 92d Cong., 1st Sess. (1971), CXVII, No 45, H 2208-2210.

[27]"Capital Events," Credit Union Magazine, February, 1971, p. 20.

union's bank stock would be considered part of its regular reserve.

In the questionnaire the author sent to league directors, thirty of the thirty-one directors indicated that they believed a national bank for credit unions would be estabilished within five years. They were almost unanimous in their belief that the bank would benefit credit unions. The bank would provide credit unions with a ready source of funds and thus reduce their liquidity problems. Credit unions could borrow from the bank at a prime rate of interest. The bank would also provide an important service as a central clearing house. Interlending would be made easier and thus excess funds would be used more efficiently. The clearing mechanism of the bank could eventually be used to support checking and credit card services if offered by credit unions. Two respondents indicated that a central bank could have an adverse influence on the present tax privileges of credit unions.

All indications are that extensive changes in credit union legislation will occur in the 1970's. There seems to be substantial pressure to liberalize the laws governing credit unions. If liberalization succeeds, credit unions will become more and more like other financial institutions. As this happens, they may lose their identity as a distinct type of financial institution and may lose present advantages such as tax privileges, free office space and close personal contact between members.

CHAPTER V

THE COMPETITIVE POSITION OF CREDIT UNIONS

Introduction

Credit unions, as well as most of their major competitors, are financial institutions. The current activities of several financial institutions will be considered in this chapter. Information for this chapter was obtained from secondary and primary sources. Primary data were obtained from the questionnaires sent to all credit union leagues in the United States.

The function of a financial institution is to facilitate the flow of funds from markets in which there is a surplus to markets where there is a deficit. To accomplish this, the institution must compete in two markets. The institution must first be successful in obtaining funds from surplus units, and then the institution must be able to profitably distribute the funds to deficit units.

Because both the surplus and deficit markets can be segmented, all financial institutions have not been forced into direct competition. For example, credit unions have traditionally sought the surplus funds of low and middle-income families. Finance companies obtain their funds from other financial institutions or directly from the money market. In the distribution of surplus funds, the markets of different types of financial institutions have been even more distinct. Commercial banks have traditionally filled the short-term money needs of commerce and industry. Savings and loan institutions have provided mortgage money, and credit unions have provided the shorter term personal finance needs of their members.

The specialized nature of the various types of financial institutions is changing. Competition between all types is becoming more direct. Changes in market conditions, technology, legislation, and the desire to grow have motivated institutions to offer more services and outlets. The result has been an overlapping of market areas. Dr. Donald P. Jacobs has stated:[1]

> The traditionally specialized nature of financial intermediaries in the United States suggests that, in these institutions as well as in production facilities, there are substantial returns from specialization. In recent years, however, a major trend away from specialization seems to have developed, evidenced both by the wide array of new services offered by deposit institutions and by the intensive lobbying of representatives of the various financial agencies to persuade Congress and the regulatory authorities to authorize services not heretofore sanctioned.

More recently Dr. Ernst A. Dauer made the following observation:[2]

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[1]D. P. Jacobs, "Specialization in Financial Institutions," Conference on Savings and Residential Financing, Ninth Session of the Conference on Savings and Residential Financing (Chicago: U.S. Savings and Loan League, 1966), p. 110.

[2]Ernst A. Dauer, "Consumer Credit in the 1970's" The Credit World, August, 1969, p. 16.

> Thirty years ago, the various forms of specialized consumer financing institutions, each operating in its own field and with its separate characteristics could be clearly distinguished. During the next decade, the distinction will become less and less clear.

The information presented would indicate that credit unions will face stronger competition in the future. Of the thirty-one responses to the questionnaire sent to credit union league directors, twenty-nine (94%) said that competition between credit unions and other financial institutions would intensify in the next decade. The responses took two general directions; approximately half contained comments on the expanded operations of institutions other than credit unions. Banks, for example, have intensified their efforts to capture more of the consumer loan market. The remaining responses contained comments on the expanded operation of credit unions. One league's director pointed out that as credit union laws become more liberalized, credit unions will expand their services and will receive more attention from competitors.

Only two directors indicated that competition would not intensfy. One of these directors made this comment:

> Not to any great degree. Due to the bootstrap nature of its operation-voluntary unpaid officials-the common bond-the personal approach-the non-profit motivation-credit unions will continue to be meaningful to the average wage earner.

This response seems to imply that credit unions will simply continue undisturbed to supply their special service to a selected group. Such an opinion seems to be contrary to present evidence. In the first place, not all credit unions are bootstrap operations. The typical credit union is small, but many are large. According to an observation of the American Bankers Association:[3]

> One-fourth of all credit union assets are held by credit unions of $5 million in assets and over. A $5 million credit union is larger than half of our nation's insured commercial banks.

Another interesting observation was that when asked to comment about the competitive future of credit unions, over eighty per cent of the directors failed to mention competition for savings. Most restricted their comments to conditions in the market for consumer loans. This observation was unexpected due to the answers received on a previous question. In the previous question league directors were asked to indicate whether credit unions would face their strongest competition when competing for members' savings or when competing for consumer credit. Twenty of the thirty-one directors indicated savings, eight indicated credit, two said it would vary, and one said in neither area.

The next two sections will discuss competitive conditions in the markets for savings and consumer credit respectively. Current observations are that competition will intensify in both of these markets.

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[3]The American Bankers Association. The Credit Union's Changing Image, (New York: The American Bankers Association, 1966), p. 13.

Competition for Savings

The market for savings is very competitive and will probably become more competitive in the future. The strong demand for savings is derived from an accelerated demand for all types of credit. Attempts to meet credit demands have forced financial institutions to devote more attention to conditions in the savings market. They have invaded the market with new debt instruments and nonmonetary appeals. As a result, the savings markets traditionally tapped by the various intermediaries are no longer as stable and reliable as they once were.

Table IX provides a summary of how resources are divided among various types of financial institutions. Commercial banks are the principal institution with approximately thirty-eight per cent of all funds. Savings institutions, including savings and loan associations, mutual savings banks and credit unions control approximately twenty per cent of the funds. Among the savings institutions, credit unions are the smallest. The savings institutions and commercial banks are similar in that they all obtain a large part of their funds in the form of either savings or time deposits.[4]

Most of the funds placed in savings and time deposits come from households. Table X reveals that, between 1965 and 1970, households supplied almost all the new funds flowing to the time and savings accounts at savings

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[4]Savings include share accounts in credit unions.

TABLE IX

SOURCES OF FUNDS FOR FINANCIAL INSTITUTIONS
(outstanding amounts at end of 1968 in billions of dollars)

Sources	Total	Commercial Banks	Saving Institution	Pension Funds	Insurance Companies	Investment Companies	Finance Companies	Security Brokers and Dealers
Demand deposits	165.5	165.5	---	---	---	---	---	---
Savings or time deposits	412.1	203.7	208.4	---	---	---	---	---
Other debt	69.7	5.9	5.8	---	---	---	45.4	12.6
Other liabilities	60.8	36.0	4.1	---	20.3	---	.2	.2
Special reserves	319.6	---	---	144.3	175.3	---	---	---
Net worth (other reserves)[a]	141.1	28.5	18.0	---	35.5	52.6	4.3	2.2
Total	1,168.8	439.6	236.3	144.3	231.1	52.6	49.9	15.0

[a]Amounts for this item were not included in the source tables. Amounts shown were obtained by subtracting the published sources of funds from the total uses of funds.

Source: Smith, Paul F., Economics of Financial Institutions and Markets, p. 89, as taken from Flow of Funds Accounts, 1945-1968, Board of Governors of the Federal Reserve System.

institutions and seventy-six per cent of those flowing into commercial banks. For this reason, commercial banks and savings institutions should be very sensitive to the needs of households. The next few pages will reveal how a shortage of loanable funds in 1969 stimulated the competing institutions to develop new debt instruments to meet the needs of households and other depositors.

Competition between financial institutions for funds was intensified during the tight money conditions of 1969. As the country moved into 1969, inflation was recognized as an increasing problem. Monetary and fiscal tools were used to combat the upward pressure of prices. During 1969, the money supply grew at an annual rate of only 3.1 per cent. During 1967 and 1968, it had grown at an annual rate of 7.1 per cent. In 1969, federal spending increased by only four per cent, the smallest increase in ten years. Before these policies were effectively reversed, commercial banks raised their requirements on compensating balances and raised their prime rate to 8.5 per cent. Also, the yield on bonds rated Aaa reached an average of 8.48 per cent.[5] The rates were driven up as corporations struggled for funds. To help solve their liquidity problems, corporations withdraw a large part of their time deposits at banks. The tremendous impact of these withdrawals can be seen in Table X and Graph VI.

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[5] Federal Reserve Bulletin, January, 1971, p. A 34.

TABLE X

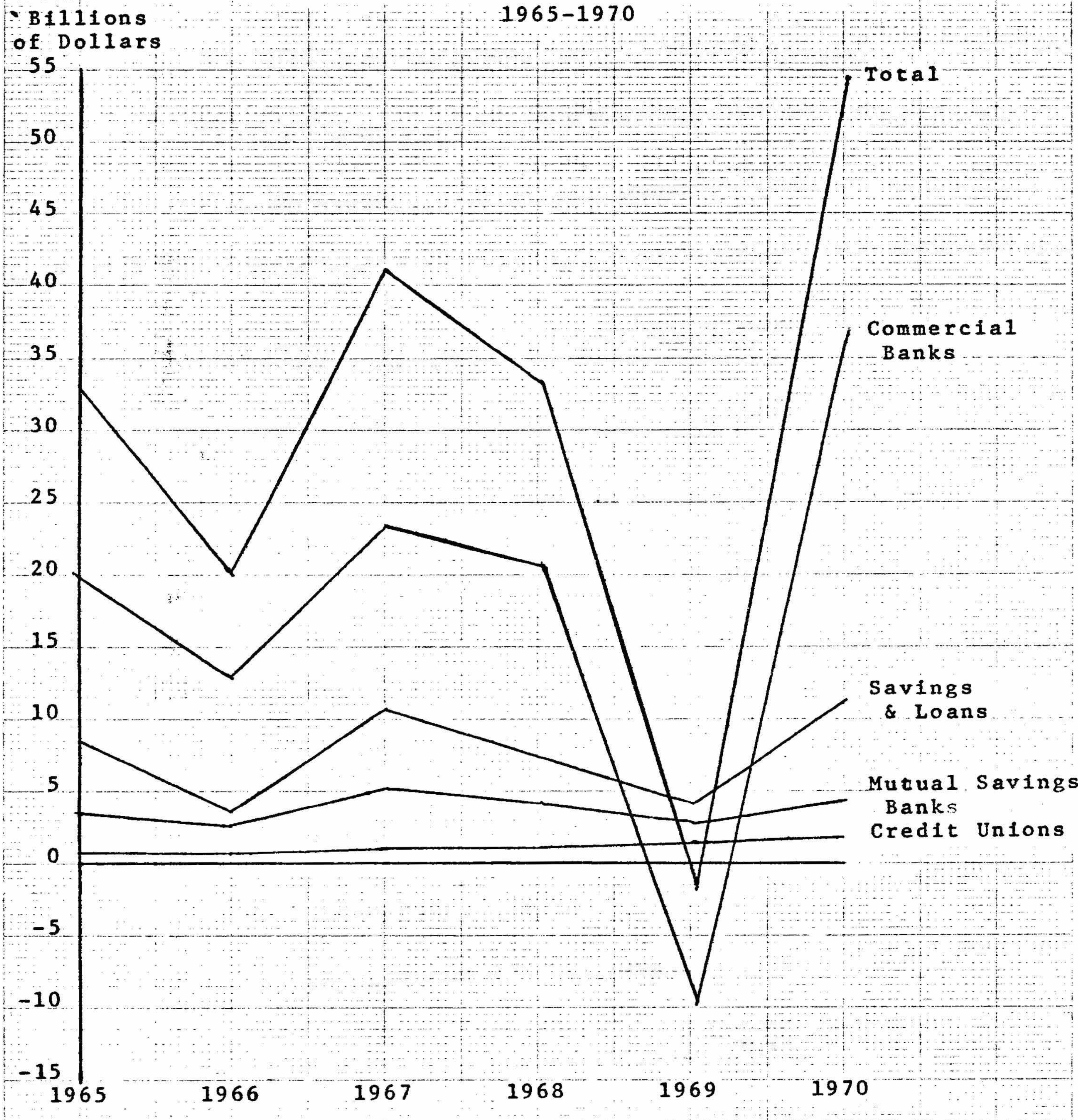
ANNUAL CHANGE IN TIME AND SAVINGS ACCOUNTS AT
COMMERCIAL BANKS AND SAVINGS INSTITUTIONS
(Seasonally Adjusted Annual Rates; in Billions of Dollars)

Transaction Category, or Sector	1965	1966	1967	1968	1969	1970
Net increase--total	33.1	20.2	40.8	33.3	-1.6	53.9
At commercial banks--Total	20.0	13.3	23.8	20.6	-9.7	36.7
Corporate business	3.9	-.7	2.9	1.9	-9.8	12.8
State and local government	2.4	1.3	2.4	3.2	-5.9	9.9
Foreign	.6	.8	1.2	-.3	1.0	-1.9
Households	13.3	11.9	17.1	15.7	5.2	15.8
At savings institutions	13.1	7.0	17.0	12.8	8.1	17.2
Liabilities--						
Savings and loan assns.	8.5	3.6	10.6	7.5	4.1	11.1
Mutual savings banks	3.6	2.6	5.1	4.2	2.6	4.4
Credit unions	1.0	.8	1.2	1.1	1.4	1.7
Assets						
Households	13.1	7.2	16.6	12.9	8.1	16.5
Credit union deps. at S & L's	*	-.2	.3	-.1	*	.7

Source: Federal Reserve Bulletin, June 1971, p. A 71.

GRAPH VI

ANNUAL CHANGES IN SAVINGS AND TIME DEPOSITS AT COMMERCIAL BANK AND SAVINGS INSTITUTIONS: 1965-1970



Source: Federal Reserve Bulletin, June 1971, p. A 71.

Early in 1970, monetary policy was reversed and interest rates began to fall. Graphs VII A and VII B show the changes in the money supply and money market rates. The prime rate charged by banks reached a high of 8.5 per cent in June of 1969, and then fell to 5.25 per cent in March, 1971. By April, 1971, it had begun to move back upward. Prime commercial paper and prime bankers acceptances followed a similar pattern. In the market for long-term funds, the average yield on corporate bonds rated Aa & A reached 8.48 per cent in June, 1970. Their yield then declined to 7.08 per cent in February, 1971, and then turned upward. Government bonds have followed a similar pattern.[6]

Credit unions seem to have withstood the competitive pressures of 1969-70 very well. A study of Table X and Graph VI reveals that among commercial banks and savings institutions, credit unions were the only ones in which new savings in 1969 were greater than in 1968. During 1969, savings and time deposits at commercial banks declined while at mutual banks and savings and loan associations they increased only half as much as they did in 1968.

While the flow of savings into credit unions in 1969 was more stable than in other institutions, credit unions were forced to struggle for additional savings. Table XI shows that even though savings increased in 1969, loans increased by a larger amount. The loan-to-savings ratio at

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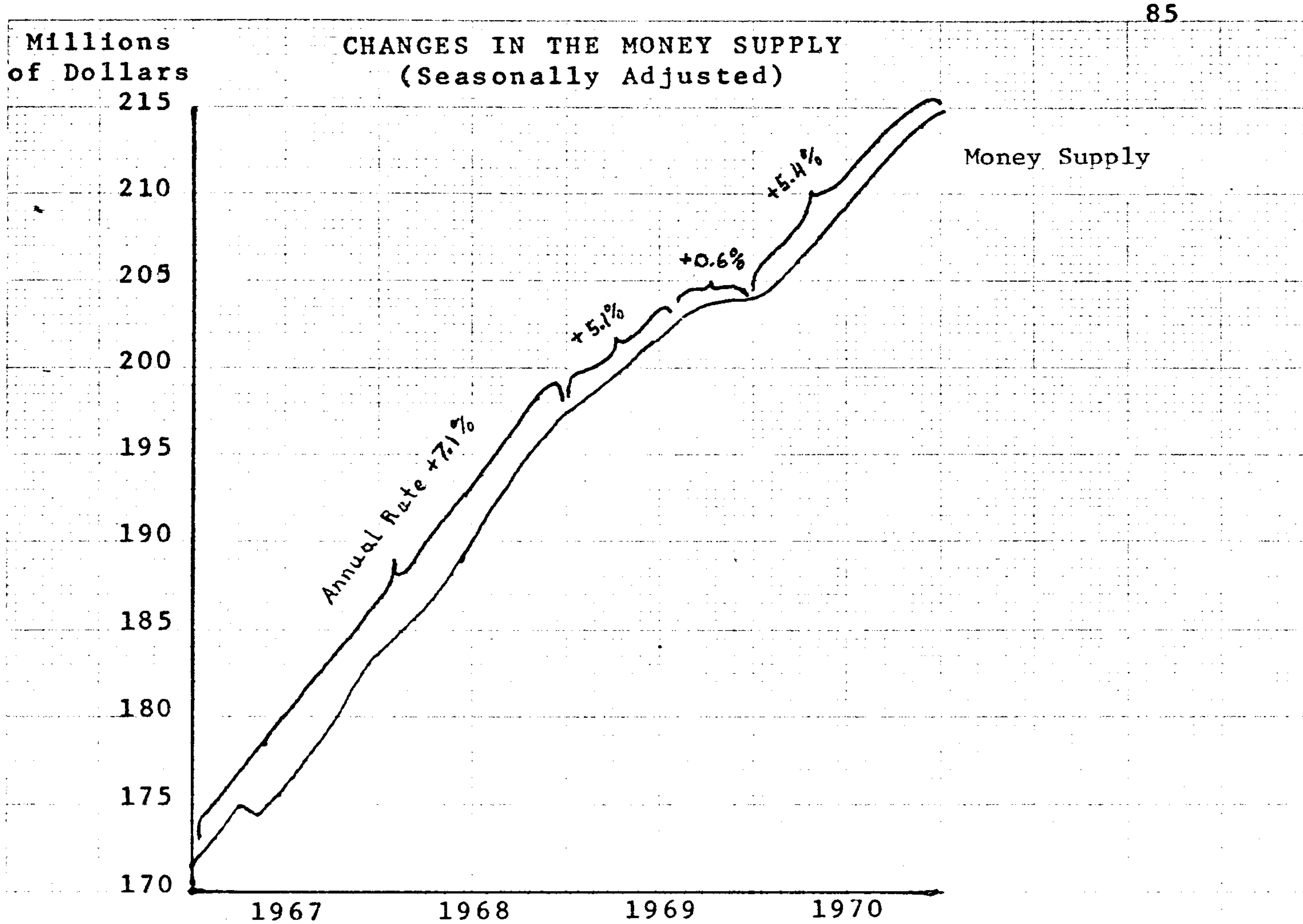
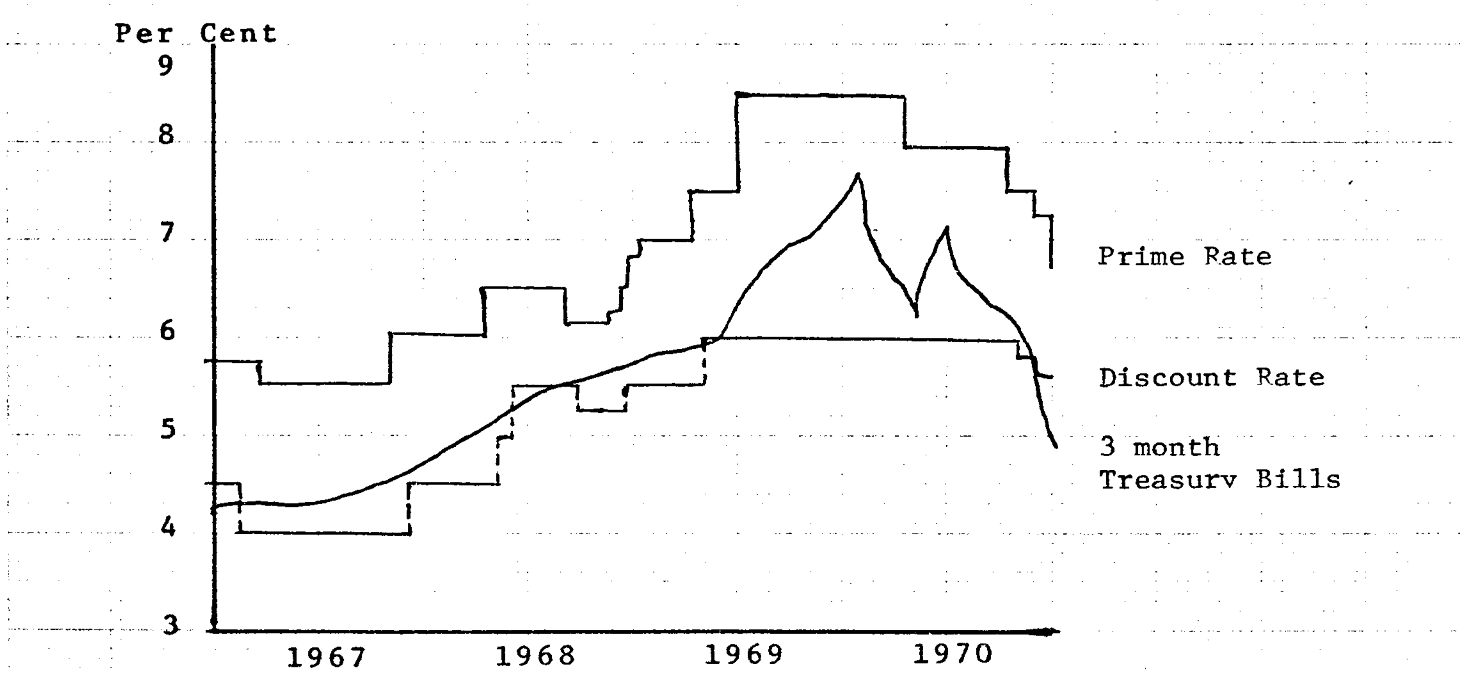
[6] Federal Reserve Bulletin, May, 1971, pp. A 33 & A 34.

GRAPH VII A



GRAPH VII B

CHANGES IN MONEY MARKET RATES



Source: Federal Reserve Bulletin, June 1971, pp. A 17 & A 33.

TABLE XI

LOANS-SAVINGS RATIO OF CREDIT UNIONS
(in Millions of Dollars)

Year	Savings (Shares and Deposits)	Loans Outstanding to Members	Loans/Savings
1960	$ 4,975	$ 4,377	.88
1961	5,636	4,818	.85
1962	6.331	5,377	.87
1963	7,166	6,171	.85
1964	8,242	7,046	.86
1965	9,249	8,095	.88
1966	10,106	9,093	.90
1967	11,324	9,877	.87
1968	12,324	11,284	.92
1969	13,673	12,942	.94
1970			

Source: International Credit Union Yearbook 1970, p. 37.

credit unions increased. Some credit unions were short of funds. Conditions at the HEW Employees Federal Credit Union were described as follows:[7]

> During the last three quarters of 1969 there was a fearful scarcity of money throughout the country which we had foreseen in September of 1968 and had tried to prepare for by being the first to start issuing Promissory Notes to raise money. In 1969 we had also an exploding loan demand.
>
> By mid-'69 the Promissory Notes program was already a success but we still were below our last dollar. We were overdrawn at the bank and could get from the bank only 30 day credit and at 8 3/4%. We were trying to borrow from other credit unions with very little success. We were <u>facing a liquidity crisis</u> that was very serious.

To help meet its need for additional funds, the HEW Employees Federal Credit Union originated and sold promissory notes to its members. As a federal credit union, deposits were not permitted. For all practical purposes, however, the promissory notes performed the same function as certificates of deposit at commercial banks. The notes had the following features:

1. Payable on demand without notice or waiting period.
2. Interest at the rate of 5% per annum from date of issue to date of redemption. (.25% above dividend rate.)
3. Interest paid quarterly and at the date of redemption.
4. Minimum amount of $1,000.
5. Even multiples of $500.
6. Non-negotiable, non-transferable and non-assignable.

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[7]HEW Employee Federal Credit Union (Washington, D.C.), letter from the Treasurer to the Board of Directors, July 14, 1970. (Typewritten.)

7. Callable for redemption by the credit union on the first day of any calendar month after 15 days notice in writing.

8. Prior claim to assets. (ahead of share amounts)

The HEW Employee Federal Credit Union sold $1,235,000 in notes in a thirteen month period. Members used their share accounts to purchase approximately $235,000 of the total. The balance of $1,000,000 was "new money."[8] Promissory notes became a major weapon in the fight for savings during 1969. Hundreds of credit unions adopted the HEW plan or some modified version. Some plans permitted the selling of notes to nonmembers and paid yields as high as 6.5 per cent.[9]

Credit unions also made other attempts to attract savings. The Dearborn Federal Credit Union attracted $6.5 million in new share capital by giving away a Lincoln Continential. The Mather Federal Credit Union in California gave away carnations to ladies; the University Faculty Credit Union in Wisconsin gave away miniature orange trees for new accounts of $25 or more.[10] The list of give-away and other savings promotions at particular credit unions is almost endless, but promotional expenditures by the credit union industry indicate little response to the tight money

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[8] Lincoln, New Savings Service:, pp. 7 & 8.

[9] Ibid., p. 43.

[10] "Action Reaction," Credit Union Magazine, August, 1970, p. 22.

conditions of 1969. In 1968 credit unions spent an average of $487 on education, advertising and promotion.[11] In 1969 they spent $495.[12]

As interest rates rose in 1969, the competitive position of commercial banks was crippled by the interest rate ceiling imposed through Regulation Q. The rates banks were permitted to pay on savings and time deposits were not sufficient to compete with rates in the open market. As a result, funds flowed out of banks directly into the open market. This phenonenon is known as disintermediation.

Concern for the well being of savings and loan institutions was one reason the Federal Reserve did not raise the rates banks could pay. The portfolios of savings and loan institutions consist primarily of mortgages and are thus not very flexible. The portfolios of banks are much more flexible. The rates banks charge their credit customers can be rapidly adjusted to match the rates paid on deposits. Savings and loans lack this flexibility. If bank rates had not been controlled, their rates would have risen higher than savings and loans could have paid. As a result funds would have flowed from savings and loans to commercial banks. Credit unions were in a position similar to savings and loan associations in that they had to operate with an annual limit of twelve per cent on loans.

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[11] International Credit Union Yearbook 1969, p. 33.

[12] International Credit Union Yearbook 1970, p. 33.

Without the use of their most effective competitive weapon, banks were forced to develop other means of obtaining funds. Many banks attempted to attract funds by offering free checking accounts, paying interest in advance, and offering gifts for new deposits. All of these were attempts to raise the effective rate of interest. Banks also obtained funds by borrowing Eurodollars and by selling commercial paper through holding companies.

All these efforts resulted in an expansion of the markets from which financial institutions normally obtain funds. Interest rates rose during the first six months of 1971; if they continue, institutions are sure to continue their search for additional means of obtaining funds. As they do, competition for funds will intensify.

As a part of this study, league directors were asked to indicate the institutions they felt were the strongest competitors of credit unions in the market for surplus funds. Their answers are summarized in Table XII. The results clearly show that banks and savings and loan associations are considered to be the two strongest competitors. Fourteen of the thirty-one directors indicated that banks were the strongest competitors, while thirteen indicated savings and loan associations.

While banks and savings and loan associations were the overwhelming choices as the two strongest competitors, the results show a diversion of opinion about the third strongest competitor. Ten of the thirty-one directors

TABLE XII

COMPETITORS OF CREDIT UNIONS IN THE SAVINGS MARKET
(Answers to a Questionnaire)

	Strongest Competitor	2nd Strongest Competitor	3rd Strongest Competitor
Bank	14	10	3
Savings and loans	13	14	1
Series E savings bonds	0	2	7
Series H savings bonds	0	1	0
Other Federal Govn. Securities	5	1	3
Municipal bonds	0	0	0
Stocks	0	1	10
Others	0	1	4
No answer	0	1	4
Total	31	31	31

indicated stocks were the third strongest competitor while Series E savings bonds were the choice of seven directors.

As the public's knowledge of stocks increases, more and more people will consider them a new investment opportunity. Twenty-five million Americans already own stock. Small investors have also found the advantages of investment companies very appealing. At the beginning of 1968, investment companies had 7.9 million shareholder accounts and net assets of $44.7 billion.[13] Bayrock Advisors, Inc., an investment manager's subsidiary of Bache & Co., recently announced the organization of a new mutual fund especially for union members. Shares in the fund can be easily purchased through payroll deductions.[14] Such a convenient plan is certain to appeal to some individuals that would ordinarily put their savings in credit unions.

Congress has recently improved the competitive position of Series E savings bonds. The interest rate ceiling on the bonds was raised from 4.5 to 5 per cent in August, 1969, and to 5.5 per cent in August, 1970. They are sold for as little as $18.75, and they mature in only five years and ten months. Series E bonds also have certain tax advantages over alternative investments. Since the average yield paid by credit unions in 1969 was only 5.25 per cent,

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[13]Murray E. Polakaff, _et al._, _Financial Institutions and Markets_ (Boston: Houghton Mifflin Co., 1970), pp. 196 & 197.

[14]"A Mutual Fund for Unionists Only," _Business Week_, January 9, 1971, p. 71.

savings bonds provide an appealing alternative to credit union shares.

Credit unions must also recognize and contend with several other new attempts by competitors to tap the reserves of households. In the past few months, several corporations have sold small denomination savings bonds directly to consumers. The bonds are sold to provide a yield higher than is paid on savings and time deposits and lower than is normally required in the bond market. In this way the borrower obtains a new source of funds and at a lower than usual rate of interest. These bonds place industry in direct competition for funds with commercial banks and saving institutions. Mr. Strunk, an official of the Savings and Loan League, believes that such bonds could eliminate most of the projected growth in savings and loan deposits.[15]

Competition for loanable funds is likely to continue through the 1970's. Predictions are that the supply of loanable funds will increase relatively slower than the demand for them.[16] Most savings come from older persons, but the population of the United States is getting younger. The young have more need for credit, and young people of today are also more willing than ever to use credit. For this reason, the average cost of borrowed funds should be higher in the 1970's than in the 1960's.

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[15]"AT & T Mulls Offering MaBell Savings Bonds Similar to Treasury's," The Wall Street Journal, October 9, 1970, p. 1.

[16]Simon Kuznets, Capital in the American Economy, (Princeton: Princeton University Press, 1961), pp. 459 & 460.

The ability of credit unions to compete for savings in the 1970's seems rather good. Compared with commercial banks and other savings institutions, they had the most stable inflow of savings during the tight money period of 1969. Also, they now have share insurance. Preliminary reports show that it has stimulated savings. Only fifty-eight per cent of all credit unions now have payroll deduction plans, but an average of 500 additional credit unions are adding it each year. Payroll deduction should be a plus factor throughout the 1970's. If the industry is successful in its bid to obtain a national bank, credit unions will have access to new sources of funds. These factors seem to put credit unions at a competitive advantage at the present time. This, however, is no reason why they should relax efforts to attract funds. If regulating agencies remove ceilings on deposits at commercial banks and savings and loan associations, these institutions would be in a much better position to compete with credit unions. Conditions in 1969 stimulated institutions to seek funds through many new devices. There is no reason to think that these challenges will stop. This means that credit unions must be more alert and flexible than ever.

Table XI showed that the loan-to-share ratio of credit unions was rising. If this trend continues, credit unions will need to attract funds at a faster rate in the future. If they do not, they will be unable to meet their members' growing demand for credit. The two services are not independent of each other.

Competition for Consumer Credit

Extension of consumer credit to members is the single most important function credit unions perform. Credit unions attempt to finance the purchase of commodities and other personal needs of their members. In 1971, credit unions controlled approximately 12.4 per cent of all consumer instalment credit in the United States. Table XIII shows that they are the fourth largest and fastest growing supplier of consumer instalment credit. They are far behind commercial banks and finance companies, but they are very close to catching retailers.[17] If current trends continue, credit unions will be the third largest suppliers of consumer instalment credit in a few years.

Some financial institutions such as credit unions, sales finance and consumer finance companies tend to specialize in consumer credit. Other institutions such as commercial banks and savings and loan associations provide consumer credit in conjunction with other forms of credit. Retailers tend to use various forms of credit as a marketing device. In some cases the type credit offered by one of these institutions will meet the needs of certain income or age groups within the economy. In other instances, several institutions appeal to the same group or class of people. When this happens competition between types of institutions is more direct. In the case of credit unions, ninety per cent of

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[17]Finance companies consist of sales finance,consumer finance, and other finance companies.

TABLE XIII

PERCENTAGE OF CONSUMER INSTALMENT CREDIT
HELD BY VARIOUS INSTITUTIONS

		Financial Institutions				
Year	Total	Commercial Banks	Finance Companies	Credit Unions	Miscellaneous	Retailers
1950	100%	39.4	36.2	4.0	.7	19.7
1955	100%	36.4	40.6	5.8	1.7	15.5
1960	100%	38.6	36.0	9.0	1.8	14.6
1965	100%	40.6	34.0	10.3	1.4	13.7
1966	100%	40.5	33.7	10.6	1.3	13.9
1967	100%	40.4	33.0	11.3	1.2	14.1
1968	100%	41.0	32.4	11.3	1.5	13.8
1969	100%	41.0	32.3	11.8	1.5	13.4
1970	100%	41.8	31.2	12.4	1.5	14.1

Sources: Federal Reserve Bulletin, June 1971, p. A 54.

their members have either a checking account or a savings account at a commercial bank.[18] In trying to meet the credit needs of their depositors, banks and credit unions are in direct competition.

Commercial banks, finance companies, and credit unions supply more than ninety-five per cent of all the consumer instalment credit extended by financial institutions.[19] Though they all compete in the field of consumer instalment credit, they do not necessarily compete for the same type consumer instalment credit. The Federal Reserve has divided the field of consumer instalment credit into four major parts based on the purpose for which credit is extended--automobile paper, personal loans, repair and modernization loans, and other consumer goods paper. By studying the amount each financial institution lends in each of the four credit areas, it is possible to get a better understanding of the degree of competition between the institutions.

Table XIV shows the extent to which the financial institutions have divided their credit among the four major types of consumer instalment credit. The table contains both the dollar amount an institution has invested in each type of consumer instalment credit and the percentage

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[18]Walter Palner, "The Best Word is Contemporary," Paper presented at the Second Annual Convention of the Savings Institutions Marketing Society of America, Miami Beach, Florida, Jan. 24, 1967, p. 6.

[19]Federal Reserve Bulletin, June 1971, p. A 54.

invested in each type. Percentages are important because they show changes in the composition of each institution's portfolio of consumer instalment credit. Part "C" of Table XIV includes credit unions, savings and loan associations, and mutual savings banks. Since credit unions have extended between eighty-five and ninety per cent of the consumer credit extended by these three institutions in each of the past twenty years, it is assumed that the figures in part "C" are representative of credit unions.

In Table XIV it can be seen that consumer goods paper and repair and modernization loans are the two least important types of loans for all three institutions. In most cases the percentage of total instalment credit extended by each institution for these two types of loans has remained relatively constant or declined. The only noticeable exception is in the case of finance companies. The percentage of their total credit extended for consumer goods paper increased from thirteen to twenty-one per cent.

Automobile and personal loans are the two most important types of loans for all three institutions. Of the three institutions, commercial banks have the largest percentage invested in auto loans. Since 1955, approximately fifty per cent of their consumer instalment credit has been in auto loans. Credit unions have the second highest percentage of auto credit. The figures show that since 1950, the percentage they have invested in automobile credit increased from twenty-three to thirty-seven per cent.

TABLE XIV

HOW THE CONSUMER INSTALMENT CREDIT EXTENDED
BY FINANCIAL INSTITUTIONS IS DIVIDED AMONG
THE FOUR MAJOR PURPOSES FOR WHICH THEY EXTEND THE CREDIT
(in Millions of Dollars)

Part A - Commercial Banks

Year	Total		Automobile Paper		Other Consumer Goods Paper		Repair and Moderniza-tion Loans		Personal Loans	
	$	%	$	%	$	%	$	%	$	%
1950	5,798	100	2,471	42.7	1,456	25.2	834	14.4	1,037	17.9
1955	10,601	100	5,305	51.1	2,042	19.2	1,338	12.6	1,916	18.1
1960	16,672	100	8,136	48.8	2,759	16.5	2,200	13.2	3,577	21.5
1965	28,962	100	15,868	54.9	4,166	14.4	2,571	8.7	6,357	22.0
1966	31,319	100	16,980	54.2	4,681	14.9	2,647	8.5	7,011	22.4
1967	32,700	100	17,194	52.5	5,126	15.7	2,629	8.1	7,751	23.7
1968	36,952	100	19,318	52.2	6,060	16.4	2,719	7.4	8,855	24.0
1969	40,305	100	20,404	51.6	7,415	18.4	2,751	6.8	9,735	24.2
1970	41,895	100	20,202	47.8	8,633	10.6	2,760	6.6	10,482	25.0

Part B - Finance Companies

Year	Total $	Total %	Automobile Paper $	Automobile Paper %	Other Consumer Goods Paper $	Other Consumer Goods Paper %	Repair and Moderniza-tion Loans $	Repair and Moderniza-tion Loans %	Personal Loans $	Personal Loans %
1950	5,315	100	3,157	58.4	692	13.2	80	2.6	1,386	26.0
1955	11,838	100	7,108	61.0	1,448	12.2	41	0.6	3,240	26.4
1960	15,435	100	7,703	50.0	2,553	16.5	173	1.1	5,006	32.4
1965	24,282	100	9,400	38.6	4,425	18.2	224	1.0	10,233	42.0
1966	26,091	100	9,889	38.0	5,171	19.8	191	0.7	10,840	41.5
1967	26,734	100	9,538	35.8	5,479	20.0	154	0.8	11,563	43.4
1968	29,098	100	10,279	35.4	5,999	20.6	113	0.4	12,707	43.6
1969	31,734	100	11,053	34.8	6,514	20.5	106	0.3	14,061	44.4
1970	31,123	100	9,941	32.0	6,648	21.4	94	0.3	14,440	46.3

Part C - Credit Union, S&L's, and Mutual Savings Banks

Year	Total $	Total %	Automobile Paper $	Automobile Paper %	Other Consumer Goods Paper $	Other Consumer Goods Paper %	Repair and Moderniza-tion Loans $	Repair and Moderniza-tion Loans %	Personal Loans $	Personal Loans %
1950	692	100	159	23.1	40	5.8	102	14.5	391	56.6
1955	1,959	100	560	28.6	130	6.8	313	16.0	956	48.6
1960	4,566	100	1,460	32.0	297	6.5	775	17.5	2,034	44.0
1965	8,289	100	3,036	36.3	498	6.0	933	11.6	3,822	46.1
1966	9,314	100	3,410	36.8	588	6.3	980	10.3	4,336	46.6
1967	10,056	100	3,707	37.0	639	6.4	1,006	9.9	4,704	46.0
1968	11,407	100	4,213	37.0	727	6.4	1,093	10.6	5,374	46.0
1969	12,943	100	4,809	37.2	829	6.4	1,183	8.1	6,122	47.3
1970	14,046	100	5,202	37.0	898	6.4	1,256	9.0	6,690	47.6

Source: Federal Reserve Bulletin, June 1971, p. A 55.

While this was happening, finance companies were drastically reducing the proportion of their credit in auto loans. Between 1950 and 1970, finance companies reduced there percentage of credit held in the form of auto loans from fifty-eight to thirty-two per cent. It would then appear that finance companies are putting less emphasis on auto financing and that credit unions are making a strong effort to take up the slack.

In 1970 and 1971, Commercial Credit Corporation liquidated over a half billion dollars in auto paper so that it could extend more credit in the areas of mobile home financing and personal loans. They had concluded from their operation that auto financing was less profitable than either mobile home or personal loans.[20] Henry Walkins, Vice-President of CIT Finance Corporation, recently stated that finance companies controlled by the auto industry have driven the rates on auto loans so low that the independent finance companies can not make a profit. CIT, the largest independent finance company, is getting completely out of auto financing.[21]

Commercial banks and finance companies have increased the percentage of their credit in the area of personal loans while credit unions have reduced theirs. Finance companies

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[20]Michael Doyle, District Manager for Commercial Credit Corp., Speech given at the monthly meeting of the Society for Advancement of Management, Statesboro, Georgia, January 20, 1971.

[21]"Longer Auto Loans but no Enthusiam," Business Week, August 7, 1971, p. 22.

had the biggest change. The percentage of their credit in personal loans increased from twenty-six per cent in 1950 to forty-six per cent in 1970. In the two most important areas of consumer instalment credit--automobile and personal loans--credit unions and finance companies have arranged their portfolios so that they have about the same percentage in each area. This is certainly a change from 1950. At that time credit unions had twenty-three per cent of their credit in auto loans and fifty-six per cent in personal loans. Finance companies had fifty-eight per cent of their credit in auto loans and only twenty-six per cent in personal loans. The present composition of their credit indicates that credit unions and finance companies now extend most of their credit for the same purposes. These changes have brought the two types of institutions into more direct competition. But, finance companies claim to offer higher-risk loans, and to the extent that this is true, they are not necessarily appealing to the same type customer as are credit unions or banks.[22]

The consumer instalment credit portfolio of commercial banks is quite different from that of finance companies and credit unions. Banks have a higher percentage in auto loans and lower percentage in personal loans. Based on these percentages, it would seem that banks and credit unions are not as competitive as are credit unions and finance

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[22]Chapman and Shay, The Consumer Finance Industry, pp. 15 & 16.

companies. The percentages are, however, misleading. They hide the overwhelming importance of banks in the area of consumer credit. For while the percentage of banks' portfolio in personal loans is approximately one-half that of credit unions, banks have almost twice as many dollars in personal loans as do credit unions. Thus banks must be recognized as very strong competitors of credit unions, especially when it is recalled that ninety per cent of all credit union members have either a savings or checking account with a bank. The two institutions appeal to similar type customers.

Table XIV reveals that financial institutions which extend consumer instalment credit have become less specialized in the type of instalment credit they extend. Pressure to extend credit in new areas is generated by the desire to enlarge the volume of business, to increase income, and to reduce the risk associated with extending only one type consumer loan--auto loans for example.[23] The drift from specialization will increase the competition between financial institutions offering consumer instalment credit. In the face of these changes, credit unions have been able to increase their share of the consumer instalment credit extended by these institutions. In 1950, they provided five per cent of the consumer instalment credit extended by financial institutions; in 1970 they provided 14.3 per cent.[24]

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[23]Chapman and Shay, The consumer Finance Industry, p.17.

[24]Federal Reserve Bulletin, June 1971, p. A 54.

Credit unions' increased share of consumer credit may not be as good as the figures would indicate. Automobile loans now make up a larger percentage of their portfolio than they did twenty years ago, and auto loans are often made at a lower interest rate than are personal loans. Thus it is possible that auto loans are not as profitable as are personal loans. They may, however, be more profitable than an investment in government securities or savings and loan shares. If this is true, credit unions may have increased their interest in auto loans simply to avoid purchasing less profitable investments such as government securities. This reasoning is more than mere speculation; it is given substance by the fact that in the past credit unions have generally had an excess rather than a shortage of loanable funds.[25] Credit unions with a full-time manager need to earn about eight dollars per hundred dollars of share savings simply to meet expenses.[26] Government securities and savings and loan shares will not provide this large a return. The Research and Economics Department of CUNA recently offered the following advice to credit unions:[27]

> _Credit unions may find it worthwhile to reduce the rates on loans so that their fixed costs are covered._ The solution for many credit unions may be comparable to that of the manufacturer who finds that by reducing prices he can generate enough business to cover his cost of operation and still make a little profit.

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[25]See Table XI.

[26]"Trends," _Credit Union Magazine_, August, 1970, p. 33.

[27]"Trends," _Credit Union Magazine_, July, 1971, p. 38.

> In a period of economic hesitance, a credit union can increase its net income by reducing some rates in order to make more loans. It is better to make loans to members at a lower margin which covers costs than to invest in securities that do not cover costs.

The questionnaire the author sent to credit union league directors asked them to indicate who they felt were the three strongest competitors of credit unions in the market for consumer credit. A summary of their responses is presented in Table XV. The results show that there is not as much agreement about the industry's strongest competitors in the credit field as there is about the industry's strongest competitors in the savings market. Personal bank loans and bank credit cards were selected by seventeen of the thirty-one directors as the strongest competitors of credit unions. They were also selected by fourteen respondents as the second strongest competitor. Retail sources of credit were selected by ten directors as the strongest competitors of credit unions and were selected by eleven as the second strongest competitor. Only four directors felt that finance companies were the strongest competitors of credit unions. Five felt that they were the second strongest, and nine felt they were the third strongest competitor.

The results of the survey indicate that in the market for consumer instalment credit, commercial banks are the major competitors of credit unions. The competitive strength of retailers is very close to that of banks. Finance companies were selected as the third strongest competitor, but they seem to pose much less of a competitive threat than do banks and retailers.

TABLE XV

COMPETITORS OF CREDIT UNIONS IN THE CONSUMER CREDIT MARKET
(Answers to a Questionnaire)

	Strongest Competitor		2nd Strongest Competitor		3rd Strongest Competitor	
Personal bank loans	12	17	3	14	4	6
Bank credit cards	5		11		2	
Retailer credit and charge cards	7	10	7	11	4	14
Retailer instalment credit	3		4		10	
Finance companies	4		5		9	
Savings and loans	0		0		1	
Pawn brokers	0		0		0	
Others	0		1		1	
Total	31		31		31	

To maintain their position in consumer credit, credit unions must meet new challenges from old and new competitors. Old competitors such as banks have introduced new methods of extending consumer credit. In the latter half of the 1960's, banks were successful in their efforts to promote the use of bank charge cards. These cards are now the fastest growing means of extending consumer credit. Between January, 1968, and June, 1970, credit card balances at banks grew from $815 million to $2,576 million.[28]

Charge cards seem to have a definite role in the future extension of consumer credit. At the present there are about 325 million cards in circulation. Approximately 100 million are retail cards, 120 million are oil company cards, 80 million are bank credit cards, 8 million are travel and entertainment cards, and 17 million are in miscellaneous categories.[29] Not all these cards are actually being used. During 1970, less than one third of all bank charge card accounts were active to the extent of showing a balance owed to the bank in any one month.[30]

Credit cards provide holders with a line of credit and thus increase the convenience of obtaining credit. Convenience is one of the most important things consumers

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[28]A. F. Brimmer, "Statement to Congress," Federal Reserve Bullentin, June, 1970, p. 501.

[29]Dale L. Reistad, "Credit Cards in the 1970's...What Changes Ahead?," Borroughs Clearing House, May, 1971, pp. 62 & 64.

[30]"Change-Account Bankers: The New Merchants," Consumer Reports, January, 1971, p. 49.

want from the institutions that serve them.[31] To make use of the card even more convenient, point-of-sale terminals are being installed at retail stores. When a card is inserted, the customer's account is verified and a receipt is immediately printed out. More than forty banks also now have cash-dispensing equipment. The machines are placed at convenient locations. A customer can obtain $50 or $100 by simply inserting his credit card.[32]

There is now speculation that savings and loan associations, mutual savings banks, credit unions, consumer finance companies, and insurance companies will each offer a credit card plan by the mid 1970's. If this happens, another 185 million cards could be added to those already in circulation.[33] Several credit unions already offer their members a credit card plan and CUNA is now conducting a pilot study to determine the feasibility of a national credit card for credit union members.[34]

Credit unions now have a number of other plans to compete with bank and retailer charge cards. These plans have been given various names--line-of-credit and quick cash--but they operate on the same basic principles. Members

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[31]Robert D. Bowers, "Businesses, Households, and Their Banks," Business Review, March 1969, p. 18.

[32]Dale L. Reistad, "The Outlook for Automated Customer Services," Banking, February, 1971, p. 68.

[33]Reistad, "Credit Cards in the 1970's...," pp. 62 & 64.

[34]Letter from Wylie R. Dougherty, Executive Vice President of ICU Services Corporation, Madison, Wisconsin, June 3, 1971.

obtain a "line of credit" at their credit union.[35] In the case of Wyandotte (Michigan) Chemical Employees Credit Unions, the "line of credit" ranges from $200 to $1,000. The member is then given some form of draft drawn on the credit union's account in a bank. When the member wishes to purchase something, he signs the draft. The draft is cleared through the nation's banking system. Interest on the debt begins when the draft is collected against the credit union's bank account.[36] These plans do not provide members with as much flexibility as would a credit card, but it seems to be an efficient means of providing a service and meeting competition.

Credit unions should use extreme caution in attemping to match the services offered by competitors. In the case of credit cards, credit unions may find that they are not the best method of meeting the challenges of banks and retailers. Not all credit union members may want or even qualify for a card. Banks have discovered that the primary users of cards have a higher than average income and education. They have used the card more for convenience than for credit. If this continues, banks may be forced to charge their cardholders an annual fee.[37] Current information

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[35]Federal credit unions can not use the term "line of credit."

[36]"Wynandotte's Money Order Point of Purchase Plan," The Credit Union Magazine, August, 1970, pp. 8 & 9.

[37]James E. Brown, "Bank Charge Cards--Today and Tomorrow," The Credit World, January, 1971, p. 12.

reveals that bank card plans may not be very profitable. Andrew F. Brimmer, a member of the Federal Reserve Board, recently made this statement:[38]

> ...for all Federal Reserve member banks, net charge-offs as a percentage of credit cards /credit/ outstanding rose to 3.39% at the close of 1970 from 2.38% a year earlier. The ratio for national banks climbed to 3.72% from 2.49% a year earlier, and increased to 2.17% from 1.97% for state banks.
>
> In contrast, net losses on banks' consumer installment debt have generally ranged between 0.25% and 0.50%, he said, and the 1969 rate for personal loans was about 0.80%.

He also noted that credit card credit losses may decline as the card systems become more mature. For a bank to break even on a card plan, credit card balances must average $300 to $400; but in the past, outstanding balances have averaged between $150 and $200.[39]

Analysis of credit card problems seems to be the best alternative for credit unions at the present time, Credit unions cannot afford to make any costly mistakes. They must use their resources as wisely as possible, and credit cards do not currently seem to be wisest use.

In other areas, credit unions must meet new challenges from savings and loan associations, insurance companies, and various sources of farm credit. The volume of consumer credit now extended by these institutions is small but is likely to increase in the future. Savings and loan

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[38]"Bank Credit-Card Losses Keep Rising, Brimmer Says," The Wall Street Journal, March 29, 1971, p. 8.

[39]"Trends," The Credit Union Magazine, May 1971, p. 36.

institutions were once restricted to home mortgage loans, but they can now lend on mobile homes and make educational loans. There is also a strong possibility that they will soon be permitted to extend credit for home appliances, furniture and automobiles. Consumer loans would increase their cash flow and help shield them from the troubles that appear when credit becomes tight.[40]

Credit unions have an advantage over competitors in that they can make many consumer loans at a lower rate of interest. All federal and most state chartered credit unions are legally limited to a maximum interest charge of twelve per cent a year, and this includes credit life insurance plus any other expenses. In many cases, credit unions charge less than twelve per cent, especially in the case of auto loans. It is difficult, however, to say exactly how credit union rates compare with those of other institutions which extend consumer credit because national records are not kept on the rates competitors charge, and because usury laws in each state create a wide range of rates.

Consumer rates charged by some of the nation's major banks have recently been announced, and they can be used to compare with credit union rates. In December, 1970, the Chase Manhatten Bank charged $5.50 per $100 for auto loans. This worked out to an effective rate of almost eleven per cent. It does not include credit life or other possible

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[40]"California's S & Ls are Regaining Their Heft," <u>Business Week</u>, July 3, 1971, p. 56)

charges that could add another one or two per cent. The Chase makes unsecured personal loans in a range of 11 to 12.75 per cent. Most large banks in New York charge rates similar to those of Chase.[41] The Connecticut Bank and Trust Company reported that it charges eleven per cent simple interest on new car loans, twelve per cent on home improvement loans, and fourteen per cent on personal loans.[42] Most bank and retail credit card plans have an annual charge of fifteen to eighteen per cent. Consumer finance company rates generally vary between fifteen per cent and thirty-six per cent.[43]

The rates charged by credit unions seem to be equal to or lower than those of their competitors. The importance of this advantage, however, is rather uncertain. The importance of interest charges as a determinant of where consumers seek credit is in doubt. Studies have shown that interest charges are one of the least important determinants.[44] This has recently been substantiated by a study to evaluate the impact of truth-in-lending legislation. One and a half years after truth-in-lending went into effect, the Federal Reserve found that twenty-one per cent of the individuals

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[41] "Consumer Loan Cut is Followed by Chase Bank," The Wall Street Journal, December 4, 1970, p. 6.

[42] "Bank of America Consumer Loan Charges Are Cut," The Wall Street Journal, December 3, 1970, p. 3.

[43] Household Finance Corporation, It's Your Money Manage it Wisely, (Chicago: Household Finance Corp., 1970), pp. 22 & 23.

[44] Francis, Credit Union Dynamics, p. 64.

interviewed who bought new cars on time had no idea what interest rate they were paying. An additional thirty-five per cent gave an unrealistically low estimate of seven per cent or less.[45]

The Federal Reserve concluded that consumers will become more interest-rate conscious if schools will teach more personal finance. It was pointed out in Chapter II of this paper that schools and other institutions are rapidly increasing their emphasis upon personal finance. If this continues, the lower rates charged by credit unions will become more of an advantage. Truth-in-lending legislation should help to make this advantage known.

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[45]"Ignorance and Interest Rates," The Wall Street Journal, February 17, 1971, p. 16.

CHAPTER VI

AN ANALYSIS OF CREDIT UNION PROBLEMS

Introduction

The purpose of Chapter VI is to determine and evaluate the major problems that face credit unions now and in the future. Credit unions will be in a much better position to face the future if they know the problems that confront them. If a problem is common to the whole industry, its solution can be sought through a united effort at the national level.

Material for this chapter was obtained from secondary and primary sources. The questionnaire to league directors is the basic source of primary data. The information obtained from the questionnaire is compared with that gathered from secondary sources. In many cases, the two sources complement each other, but in other cases they fail to provide mutual support. In some cases there is agreement on the problem but a lack of agreement on its solution. It is hoped that this analysis will help leaders of the credit union industry to recognize problems that seem to be common to most credit unions and to formulate programs to solve the problems.

This chapter acts as a supplement to Chapters IV and V. The material in this chapter indicates the extent to which the topics discussed in the two preceeding chapters are considered by credit union leaders to be problems.

Problems Faced by Credit Unions

The specific purpose of this section is to determine what credit union leaders feel are the major problems confronting credit unions. Leaders at both the national and state level have indicated what they think are the industry's major problems. The next section contains an analysis of what credit union leaders feel are solutions to the problems.

In June, 1970, R. C. Robertson, first president of the new World Council of Credit Unions, pointed out seven major problems that now confront credit unions.[1]

1. Effective Marketing
2. Modernizing Legislation
3. Involvement of Young People
4. Education
5. Consumer Affairs
6. World Extension
7. Mobilization of Credit Unions to Effect Positive Change

During the same month, Wilfred S. MacKinnon, President of CUNA, stated that the major challenges facing his administration were:[2]

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[1] "CUNA International Delegates Set Up the World Council of Credit Unions," The Credit Union Magazine, June, 1970, p. 5.

[2] "MacKinnon Heads New U. S. CUNA," The Credit Union Magazine, June, 1970, p. 4.

1. Passage of a share insurance bill

2. Introduction of recodification legislation

3. Completion of restructuring action by January 1, 1971.

4. Heal divisions, especially in legislation, within the movement.

Robertson and MacKinnon hold the two top credit union offices in the world. They are in positions from which they can directly influence the whole credit union industry. Coordination of their efforts is vital to the industry's future. Comparison of the list of problems each feels is his biggest challenge reveals little similarity. But to draw any strong conclusions from the two statements of problems would be a mistake. One reason for the lack of similarity is that Robertson is concerned with problems of credit unions all over the world, while Mr. MacKinnon is only concerned with the United States. Also, Robertson seemed to be thinking more in terms of the long-run while MacKinnon seemed to be primarily concerned with the short-run. For example, MacKinnon spoke of a share insurance bill that was passed only four months later; he also mentioned reorganization that was to be completed within six months. Both men consider legislation to be one of the industry's biggest challenges, but they do not seem to share the same concern for marketing and education programs.

The questionnaire sent to league directors contained a question which asked them to list what they felt were the three major challenges credit unions will face in the 1970's.

Thirty of the thirty-one respondents answered the question. The replies covered a wide range of problems. In many cases it was very difficult to classify the replies so that the results would be meaningful. One reply might say that credit unions must become more sophisticated and another reply would indicate that credit unions must make more use of computers. In cases such as this, the author used his own judgement to classify a reply. The replies so classified are presented in Table XVI. The number of directors that mentioned a certain problem is also given in the table.

The responses contained more than fifteen different problems. Some of them could possibly be reclassified so that the number of different problems is reduced, but such action would be a matter of choice. Judging on the basis of the number of problems mentioned, it is possible to say that league directors are far from unanimous in their opinion of the problems credit unions face.

The most frequently mentioned problem was the need to apply current technology to the operation of credit unions. Directors felt that credit unions must take advantage of advances in technology, especially the computer. The advantages of electronic record keeping and transfer of funds were frequently mentioned. Use of computers also seemed to be associated with a growing-up process. The computer adds prestige and seems to destroy any image of a credit union being a hip-pocket operation.

TABLE XVI

MAJOR PROBLEMS THAT LEAGUE DIRECTORS FEEL WILL CONFRONT CREDIT UNIONS IN THE 1970'S

Problems	Number of Directors that Indicated it was a Problem
Applying new technology	13
Competition	12
Need for more and better services	9
Need for better trained leaders	8
Need for favorable legislation	7
Danger of losing the spirit of the credit union movement	7
Danger of losing tax privileges	4
Expanding the common bond	4
Education of members	3
Attraction of youth	3
Small credit unions	3
Rising costs	3
Need for more promotion	2
Need to improve accounting system	2
Rise in delinquent loans	1

Competition was the second most frequently mentioned problem. Directors mentioned competition for savings and for consumer credit. Two directors mentioned banks as a particularly strong competitor. Savings and loan associations were mentioned only once.

The need for more and better services was considered a problem by nine of the thirty directors. Most expressed a need for new services such as credit cards and third party payments. Two of the nine expressed a desire to study the needs of members to determine what services they actually need. They seemed to feel that simply adding more services would not necessarily solve any problems and could create new problems.

The need for better trained leaders was not the most frequently mentioned problem but it seemed to represent one of the strongest and most definite feelings of directors. It is logical that better trained leaders would be needed as credit unions get larger and make use of more sophisticated equipment. This could, however, create a dilemma for credit unions. Seven directors felt that credit unions are in danger of losing the original spirit of the movement. A major cause of this problem was the larger size of credit unions. The larger credit unions rely less on volunteer help and more on skilled professionals.

The need for new legislation concerned seven directors. They spoke of the dangers of tougher regulation, and of the need for a central bank. One director felt that constant changes in legislation will cause an adjustment problem for credit unions.

The division of opinion over what legislation credit unions need continues to split the credit union industry. The history of share insurance presented in Chapter IV revealed that credit union leaders have not always agreed on the legislation the industry needs. Information presented in this chapter reveals that the split still exists. Recall that MacKinnon stated that one of the challenges facing his administration was to heal divisions, especially in legislation, within the movement. A response from one director made it plain that the division is real and could seriously influence the future of credit unions. He states:

> In the past credit union leaders have presented a rather united front to the world in spite of internal problems and sharp difference of opinion. With the appearance of other groups that purport to represent the voice of credit unions, particularly in the area of legislation, the effect of all credit unions working together for the common good is diluted and may be lost.

Some problems that were mentioned by four or less directors include: a need to expand the common bond, danger of losing tax privileges, education of members, attraction of youth, small credit unions, promotion, rising costs and a rise in delinquent loans. Three of these problems--education, attraction of youth, and promotion--are considered major challenges by the president of the World Council of Credit unions. Leaders at the league level do not seem to share his concern, at least not to the same degree.

The lack of expressed concern of some of these problems was surprising. Consider the loss of tax privileges. When asked if they felt credit unions were in danger of losing their tax privileges, fourteen league directors said yes and sixteen said no. If almost half of them think that tax privileges could be lost, why did only three list it as a problem? It could be that they think other things are bigger problems, or it could be that they do not realize how much the loss would affect credit unions. Credit unions are the only group of financial institutions which operate in the market for personal savings and loans which are exempt from federal taxes. A study conducted in 1964 revealed that if credit unions were subject to the same federal taxes as consumer finance companies, the government would take approximately seventeen per cent of their annual gross income.[3]

Some directors seem to think credit unions have a solid case for their present tax status. One director who felt that credit unions are not in danger of losing their tax privileges made the following comment:[4]

> There will always be a segment of credit union competition that will push for this as a form of competitive opposition. I do not agree with the premise of your question. Credit unions do not

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[3]Neal Riden, Jr., "An Economic Analysis of the operations and Federal Tax Exempt Status of Credit Unions," (unpublished Ph. D. Dissertation, University of Wisconsin, 1964), pp. 129 & 130.

[4]Neal Riden's dissertation (see the preceding footnote) contains an excellent discussion of the difference between tax advantage and tax privileges. His conclusion is that credit unions are definitely given tax privileges. See pages 94-104.

> have tax privileges. Income tax is what I believe you infer by tax privileges. Credit unions pay all other taxes as does any other business. Credit unions do not have true income, it is earnings. The difference is that income after expenses, reserves and taxes goes into the pockets of a few owners. Whereas, earnings of credit unions, after expenses and reserves is distributed back to share holders as dividends equally according to the amount of such shares. Lawmakers and others who really understand this have no case for taxation on the earnings of credit unions. They are actually cooperatives.

The very same reasoning could be applied to mutual savings banks and mutual savings and loan associations. These institutions lost their tax privileges in 1951. Credit unions are slightly different from mutual savings and loan associations and mutual savings banks in that they lend only to share owners and only sell shares to persons that are within the common bond defined by their charter. But as pointed out in Chapter IV, credit union leaders are definitely trying to broaden the common bond concept. If this happens, and it seems almost certain, there will be no reason why credit unions should not be taxed on the same basis as are mutual savings and loan associations. A study conducted by Dr. Clifton Kreps and Dr. David Lapkin has already concluded that there is no justification for the present tax privileges of credit unions.[5]

Until 1970, mutual savings and loan associations were taxed according to what was known as the "60-40 Rule." They were permitted to take a maximum of sixty per cent of their

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[5]Clifton H. Dreps, Jr. and David Lapkin, Improving the Competition for Funds Between Commercial Banks and Thrift Institutions, (Chapel Hill, N.C.: Univ. of N.C., School of Business Administration, 1963), pp. 83 & 84.

net income before taxes and before tax free additions to reserves and add it tax free to their reserves. The remaining forty per cent of net income before taxes and tax free reserves was then taxed at the regular corporation rate. The 1969 Tax Reform Act modified the "60-40 Rule" so that by 1979 it will become the "40-60 Rule."[6] Tax free additions to reserves stop when reserves equal twelve per cent of deposits or withdrawable accounts.

If the same tax rules were applied to credit unions, the taxes credit unions actually pay would vary according to different assumptions. Table XVII illustrates what would have happened to the 1969 income of federal credit under different assumptions. If they had added the maximum amount of tax free income to reserves, they would have paid $10,783,200 in federal taxes--1.6% of gross income. If they had not added anything to reserves, they would have paid $26,403,300 in federal taxes--4 per cent of gross income. If taxes were to take between 1.6 and 4 per cent of gross income, the effect would be about the same as a 4 to 9 per cent increase in expenses.[7] Since the reserves of federal credit unions are now equal to 7.7 per cent of withdrawable deposits, they would probably have added the maximum to reserves.[8] Credit unions could avoid paying any taxes by

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[6]See Appendix H.

[7]The expenses of all credit unions average about 38 per cent of gross income. Therefore, a tax of 1.6 to 4 per cent of gross income is equal to a 4 to 9 per cent increase in expenses.

[8]1969 Annual Report of the Federal t redit Union Program, p. 57.

TABLE XVII

ALLOCATION OF GROSS INCOME BY FEDERAL CREDIT UNIONS ASSUMING THEY ARE TAXED ACCORDING TO THE "60-40 RULE" NOW APPLIED TO MUTUAL SAVINGS BANKS AND MUTUAL SAVINGS AND LOAN ASSOCIATIONS. APPLIED TO 1969 INCOME

Income	Allocations: Assuming they take the maximum tax free reserve of 60% of net income before taxes and tax free additions to reserves	Allocations: Assuming they take no free reserves
Gross income	$664,745,000	$664,745,000
Less Expenses[a]	273,587,000	273,587,000
Net income before federal taxes, tax-free additions to reserve, and dividends on shares	$391,158,000	$391,158,000
Dividends on shares	303,147,000	303,147,000
Net income before federal taxes and tax free additions to reserve	$ 88,011,000	$ 88,011,000
Tax free reserves	52,066,600	-0-
Taxable income	$ 35,944,400	$ 88,011,000
Taxes (assume 30% rate)	10,783,200	26,403,300
Addition to surplus from taxable income	$ 25.161,200	$ 61,607,700

[a]Expenses include total expenses as reported by all federal credit unions ($253,689,000) plus losses on loans ($19,898,000). Credit unions now write loan losses off against reserve accounts, so they do not normally show up as expenses.

simply paying all their net income after expenses out in the form of dividends. This course of action, however, would be limited by the six per cent ceiling on dividends paid by federal credit unions and by the desire of credit unions to grow through retention.

The information presented in this section reveals that credit union leaders are not unanimous in their opinions of what major challenges credit unions face. Their replies indicate that they are concerned about a number of problems with no one problem standing out as significantly more important than the others. Making use of new technology and competition seem to be the major concerns of league directors, but following closely behind are the problems of improved service, better leaders, and legislation. A study of these problems may reveal that many have a common solution. This is the topic of the next section.

Solutions to Credit Union Problems

The preceeding section summarized what league directors said were the major problems confronting credit unions. This section summarizes what they had to say about solutions to the problems. The directors were asked to give specific examples of what credit unions in their respective leagues were doing to solve their problems.

Many of the responses were not specific, but others were detailed and very informative. Since the directors were asked to list problems and examples of how the problems were being solved, it was usually possible to match a problem and how it was being solved. The results are presented in the outline given below. The outline presents the same problems listed in the preceeding section plus various solutions given by each director. The solutions appear as subsections under the problem. In some cases the solutions were shortened to fit in the table, but in many cases they are presented as received.

AN OUTLINE OF THE PROBLEMS FACED BY CREDIT UNIONS AND THE PROGRAMS WITH WHICH THEY ARE ATTEMPTING TO SOLVE THE PROBLEMS

1. Applying New Technology

    A. Credit unions own a computer center
    B. Good many credit unions are using EDP
    C. League has a computer center for credit unions
    D. League has signed a contract with an EDP service to handle credit union accounts.
    E. Developing central standard computer accounting system
    F. Have a pilot project on the electronic transfer of payment
    G. Large credit unions are now going on computers
    H. Consolidation of facilities and use of the service center concept
    I. Being handled by CUNA - Michigan League
    J. Forty credit unions are now on a system endorsed by the league

2. Competition

    A. League has a strong marketing program
    B. Good league program
    C. Promotion and education
    D. No solutions given
    E. All out advertising and promotion program
    F. Radio advertising, T.V. advertising being studied
    G. Offer dividend and interest rates as good or better than competitors

3. Need for More and Better Service

    A. No solutions given
    B. Education and training programs for operating personnel
    C. Learning to keep in contact with members
    D. One credit union has opened a branch office
    E. Some credit unions are becoming more service conscious
    F. Quick loans, open-end credit, draft system for point of purchase credit

4. Need for Better Trained Leaders

    A. Workshops, league publications
    B. More education in the field
    C. Attend seminars, keep updated on management techniques
    D. Training programs
    E. Several credit unions are using a common office and staff, thus attracting more capable personnel.
    F. League sponsors training material

5. Need for Favorable Legislation

    A. Congressional contact
    B. Have drafted and introduced state legislation
    C. Discussion of possible legislation at seminars and education sessions.

6. Danger of Losing the Spirit of the Credit Union Movement

    A. No solutions given
    B. Education programs
    C. Discussion of basic purposes
    D. Mostly a problem of large credit union, education, sponsor youth programs, etc.

7. Danger of Losing Tax Privileges

    A. Promotion and education
    B. Strengthening legislative program
    C. Unified front

8. Expanding the Common Bond

    A. One credit union changed from a parish to community type credit union. Others are contemplating expanding their field of membership
    B. Current legislation
    C. No solutions given

9. Education of Members

    A. Newsletters
    B. Attending education seminars

10. Attraction of Youth

    A. Plans to work with youth council
    B. Have a man assigned to consumerism and youth education

11. Small Credit Unions

    A. Developing growth programs for inactive credit unions and expanding field of membership
    B. Mergers

12. Rising Costs

    A. Better management
    B. Education and promotion
    C. Management training and education programs

13. Need for More Promotion

    A. About forty per cent of the league's credit unions have an advertising program

14. Need to Improve Accounting System

    A. Data processing
    B. League participates in CUNADATA

15. Rise in Delinquent Loans

    A. Better credit checking and loan counseling

The information reveals that some steps have definitely been taken to apply current technology, especially the computer, to the operation of credit unions. In one case a league operates a computer center; in another case, a league has signed a contract with a firm to supply electronic data processing services to league members; and in another case, the league has simply endorsed the electronic data processing service of a firm. One director reported that his league is conducting a pilot project on the electronic transfer of payments. The responses show that credit unions are definitely trying to apply current technology.

Application of computer technology to the operation of credit unions may require changes in the present operation of credit unions. One league director reported that consolidation of facilities and "service center" concept may be needed to meet the demands of a cashless society. This same sentiment was recently expressed by the head of the research department at CUNA.[6]

> ... the electronic money transfer systems of the mid-1970's may mean that the only way they [credit unions] can become more viable is to amalgamate into fewer but more efficient units using computer "hardware" to provide their services to their members as quickly as banks can.

The first credit union service center was opened in December, 1970, by the District of Columbia Credit Union League. The center consists of an office located in a large shopping center. In its first six months of operation, an average of eight-hundred credit union members a week were served. The center represents an effort to improve and expand the services of league credit unions, reduce expenses, and involve the families of members. The center is a convenient place for members of participating credit unions to make deposits or withdrawls, cash checks, obtain financial

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[6]Walter Polner, "Kansas Credit Unions Face the 1970's," The Business Journal, XXXIV (Winter, 1969), p. 11.

counseling, and purchase insurance and money orders.[7]

The merging of small credit unions was suggested by one director as a means of solving the problems of small credit unions. Merging would permit them to hire better trained personnel, offer more services and make efficient use of computer equipment.

In December, 1969, a new subsidiary of CUNA was incorporated--CUNADATA Corporation. Its objective was to provide a national uniform data processing service for credit unions of all sizes. In 1970, the corporation signed a contract with General Electric to provide the system for a nationwide credit union data processing system.[8] This system will not only provide the industry with the use of electronic equipment but will also provide the basis for a uniform accounting system.

In the early part of 1971, CUNA conducted a survey of league directors to determine how extensively credit unions were using computers. The survey revealed that ten per cent of all United States credit unions used computers for share and loan accounts, but only .3 per cent have

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[7]"D. C. League Opens a Credit Union Supermarket," The Credit Union Magazine, August, 1971, pp. 4-6.

[8]Frank Spillane, "Report of the Managing Director," 1971 Yearbook: Wyoming Credit Union League (Casper, Wyoming: WCUL Service Corporation, 1971), p. 41.

real-time systems.[9] The survey revealed a substantial increase in the use of computers. A 1968 study had revealed that only 3.7 per cent made use of computers.[10] The extent of computer usage varied from league to league. The highest proportion of credit unions using computers was in Hawaii--43.5 per cent. In five other leagues, 20 to 30 per cent of the credit unions were using computers.[11]

The solutions that league directors gave to the problem of competition were rather vague. Most simply stated that more promotion and education were the key to overcoming competitors. One director suggested that the rates credit unions pay on deposits and charge on loans should be as good or better than those of competitors. This would certainly be a feasible solution, but it ignores the fact that other problems are making it more and more difficult for credit unions to offer better rates on savings than competitors.

More promotion and education would certainly help credit unions meet the challenge of their competitors, but

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[9]Real time is a relative concept. It is concerned with speed at which a response is received from information fed into a computer system. If the time between the entering of information into the computer system and the logical response to this input is insignificant, the system can be said to be real time. Whether a time difference is significant is relative to the application in question, but anything longer than three minutes is usually not considered real time.

[10]The two surveys may not be comparable since the 1968 survey was directed at credit unions rather than leagues.

[11]"Credit Unionews," The Credit Union Magazine, July, 1971, p. 11.

a look at Table XVI reveals that the lack of promotion and the lack of education of members and leaders are themselves problems. During 1960, United States credit unions spent less than $6 million, approximately 1.6 per cent of total expenses, for education, advertising and promotion. During 1969, they spent $11.75 million or slightly less than 2 per cent of all expenses.[12]

Large credit unions account for most of the expenditures for education, advertising and promotion (EAP). The fifty largest credit unions spent more than one million or approximately nine per cent of the $11.75 million spent by all credit unions in 1969.[13] Eleven hundred of the nation's largest credit unions accounted for more than half the EAP expenditures in 1969. The other half was split up among the remaining 22,000 credit unions. EAP expenditures by large credit unions average about $1 a year per member. Small credit unions average less than 36 cents per member.[14]

Credit union members must know of the advantages that credit unions offer before they can be expected to use them. One credit union that claims to have a better than average EAP program conducted a survey of its members and found that a third of them thought interest rates on loans

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[12] International Credit Union Yearbook 1970, p. 33.

[13] RE Statistical Bulletin, August 1970, p. 70-285.

[14] RE Statistical Bulletin, October 1970, p. 70-384.

were higher at the credit union than at other places.[15] Credit unions seem to be neglecting a valuable tool. If the true objective of credit unions is to provide a service, they should make sure members and nonmembers are aware of the services available. A partial and in some cases a complete solution to all the problems listed in Table XVI could be obtained through the use of strong EAP programs.

League directors did not offer many specific examples of how credit unions are solving the problem of offering more and better services. One director reported that a credit union had opened a branch office. Most of the other solutions consisted of training and education programs for operating personnel. Training programs make operating personnel more aware of the needs of members and of the credit union's obligation to serve these needs. Only one director mentioned the use of some of the newest services of credit unions--quick loans and point of purchase credit.

In a question unrelated to the problems of credit unions, league directors were asked to list some new services that they felt credit unions will offer in the next ten years. A summary of the responses is presented in Table XVIII. One-third of the directors who answered the question indicated that credit unions will offer credit cards and almost a third indicated that credit unions will develop into full service centers for the financial needs of members.

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[15]"This Credit Union Checked With Its Members and Knows," The Credit Union Magazine, October, 1968, pp. 27 & 28.

TABLE XVIII

NEW SERVICES THAT LEAGUE DIRECTORS FEEL WILL BE OFFERED BY CREDIT UNIONS WITHIN TEN YEARS (Response for 27 league directors)[a]

Services	Number of Director That Indicated it Would be Offered
Credit cards	9
Service centers	8
Lines of credit	6
All forms of insurance for members	6
Income tax service	5
Third party payments	5
Improved counseling	5
Checking accounts	4
Group travel plans	2
Auto leasing	2
Mutual funds	2
Improvements in existing services	2
Nationwide lending and withdrawl service	2
Co-operative housing	2
Co-operative buying clubs	1
Retirement programs for self-employed	1
Free travelers and money order checks	1

[a]Four other directors responded to the questionnaire but did not answer this question.

Auto leasing, mutual funds, group travel plans, and co-operative housing were also listed as possible new services.

An analysis of all the methods credit unions are now using to solve their problems reveals that they take one of three forms: Educational, technical, and/or legal. The three are not independent. Educational expenditures inform members and nonmembers of the services available at credit unions. They also provide training for leaders. Well trained leaders are able to retain sight of the purpose for credit unions while they attempt to improve the services offered. They are also more able to apply new technology. The use of new technology increases the efficiency of credit unions, increases their ability to offer better service, and makes them more competitive. Changes in legislation provide credit unions with the flexibility necessary to overcome various problems.

If applied with the proper weight and timing, the three solutions should prove satisfactory. Credit unions need to increase the weight they now put on education. They also need to overcome internal disagreements on legislation.

A Special Problem of Credit Unions

The purpose of this section is to take an in depth look at a special problem of credit unions. The problem is the squeeze on income credit unions have available to pay dividends. They may not charge more than twelve per cent on loans. With this income, they must pay all expenses and pay a competitive dividend. The squeeze has recently been intensified by a rise in certain operating expenses and by a rise in the rates competitors are paying on deposits.

Only one of the directors who responded to the questionnaire survey seemed to realize the extent of the problem. He states:

> Increased pressure economically--a tighter squeeze between income and expense. The maximum interest rate credit unions can charge is set at 1% per month whereas dividends have to be somewhat competitive, i.e. about 5%-6%. Increased costs of operation will cause this squeeze.

The problem has been created by current economic conditions. Tight money has put pressure on financial institutions to pay higher rates on deposits and to charge more for loans. To be competitive, credit unions must pay higher dividends on share accounts, and they must pay higher rates if they wish to borrow additional funds. Inflation pressures are making it more difficult to pay higher dividends. Old costs are rising and new ones are being added.

Employees are demanding more compensation, and in some cases, credit union officials are becoming more interested in compensation.[16] In May, 1970, NCUA raised the examination fee for federal credit unions.[17] In January, 1971, CUNA Supply announced that rising material and labor costs would cause an average price increase of ten per cent

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[16]Rudolf Modley, "Credit Unions Today and Tomorrow," The Credit World, Oct., 1970, p. 9.

[17]"Miscellany," NCUA Bulletin, July 1970, p. 14.

on all supplies.[18] Beginning in 1971, the new share insurance program will add another expense.

The squeeze between income and expenses has no simple solution. One suggestion has been to raise the limit on rates credit unions charge for loans. But this is not a sure solution. The research department of CUNA recently made the following observation:[19]

> Credit unions may not pay more than 6%, If we could raise the limit on loans to do it, we'd lose out to banks now offering a 12% annual percentage rate. Credit unions face a dilemma.

Elimination of some costs is another possible solution. Elimination of life savings insurance is being used by some credit unions to reduce costs. The questionnaire sent to league directors asked them if any of their members had dropped life savings insurance in the past two years in order to pay higher dividends. Eight of the directors reported that they had, and two more felt that some of their members would in the future.

The preceding paragraphs tell of how particular expenses of credit unions are increasing. This does not mean, however, that credit unions are losing the war with higher costs. On the contrary, for all federal credit unions total expenses as a percentage of total gross income has declined. Table XIX reveals that gross income for federal

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[18]"In the News," The Credit Union Magazine, December, 1970, p. 12.

[19]RE Statistical Bulletin, May 1970, p. 70-171.

credit unions has increased faster than expenses. The net result has been a decline in total expenses as a percentage of gross income from forty per cent in 1955 to 38.2 per cent in 1969.[20]

A closer analysis of expenses and income reveals that their relationship is not the same for all size credit unions.[21] Credit unions with the largest amount of assets have the lowest expenses-to-income ratio. The percentage of expenses to gross income for the smallest credit unions is almost twice as high as it is for the largest credit unions.

Table XX and Graph IX show that for most credit unions the ratio of expenses to income has remained rather constant. The only major exception is in the case of very small credit unions. Their expenses-to-income ratio rose dramatically in 1965 and 1966.

Small credit unions are the least capable of paying competitive dividends, and their position seems to have deteriorated in the past five years. If expenses continue to absorb 60-65 per cent of their income, they can not hope to pay competitive dividends. As a result, small credit unions will be under more and more pressure to either grow, merge, or liquidate.

In the final analysis, rising expenses do not seem to be as big a part of the squeeze on income as was first

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[20] Annual Report of the Bureau of Federal Credit Unions, 1955 & 1969.

[21] Only federal credit union data is being used.

TABLE XIX

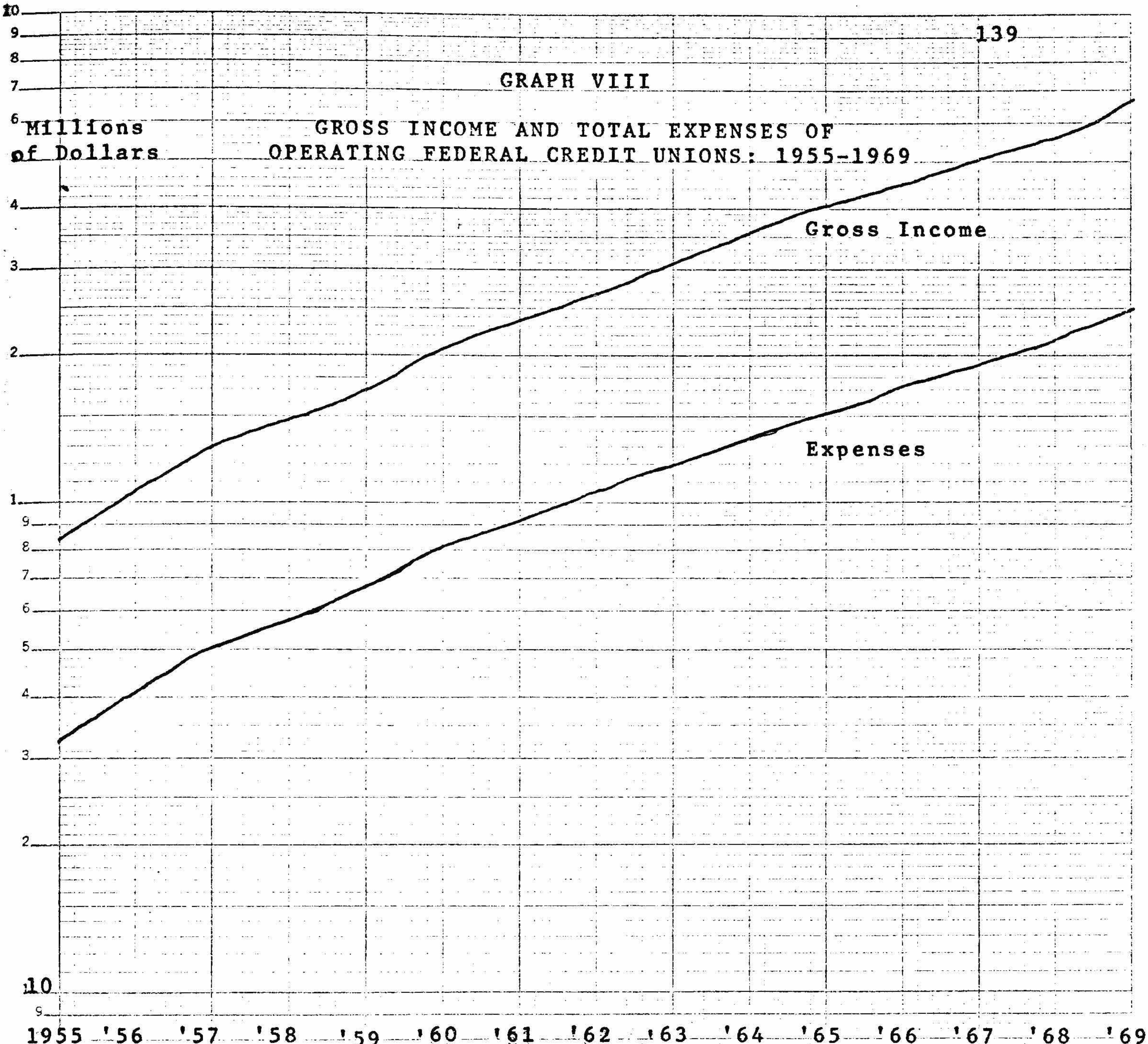
EXPENSES AND GROSS INCOME OF FEDERAL CREDIT UNIONS: 1955-1969
(In Thousands of Dollars)

Year	Expenses	Gross Income	Expense/Gross Income
1955	$ 34,540	$ 86,372	40.0%
1956	42,852	106,267	40.3
1957	51,847	130,071	39.3
1958	59,874	148,027	40.4
1959	69,610	171,847	40.2
1960	83,389	207,373	40.5
1961	94,359	235,398	40.1
1962	106,170	269,211	39.4
1963	120,425	307,783	39.1
1964	136,463	353,331	38.6
1965	153,892	405,505	38.0
1966	172,841	456,255	37.9
1967	192,747	503,477	38.3
1968	216,223	562,946	38.4
1969	253,689	664,745	38.2

Source: Annual Report of the Bureau of Federal Credit Unions, 1955-1969.

GRAPH VIII

GROSS INCOME AND TOTAL EXPENSES OF OPERATING FEDERAL CREDIT UNIONS: 1955-1969



Sources: Annual Report of Bureau of Federal Credit Union, 1955-1969.

Logarithmic
10 to the inch

TABLE XX

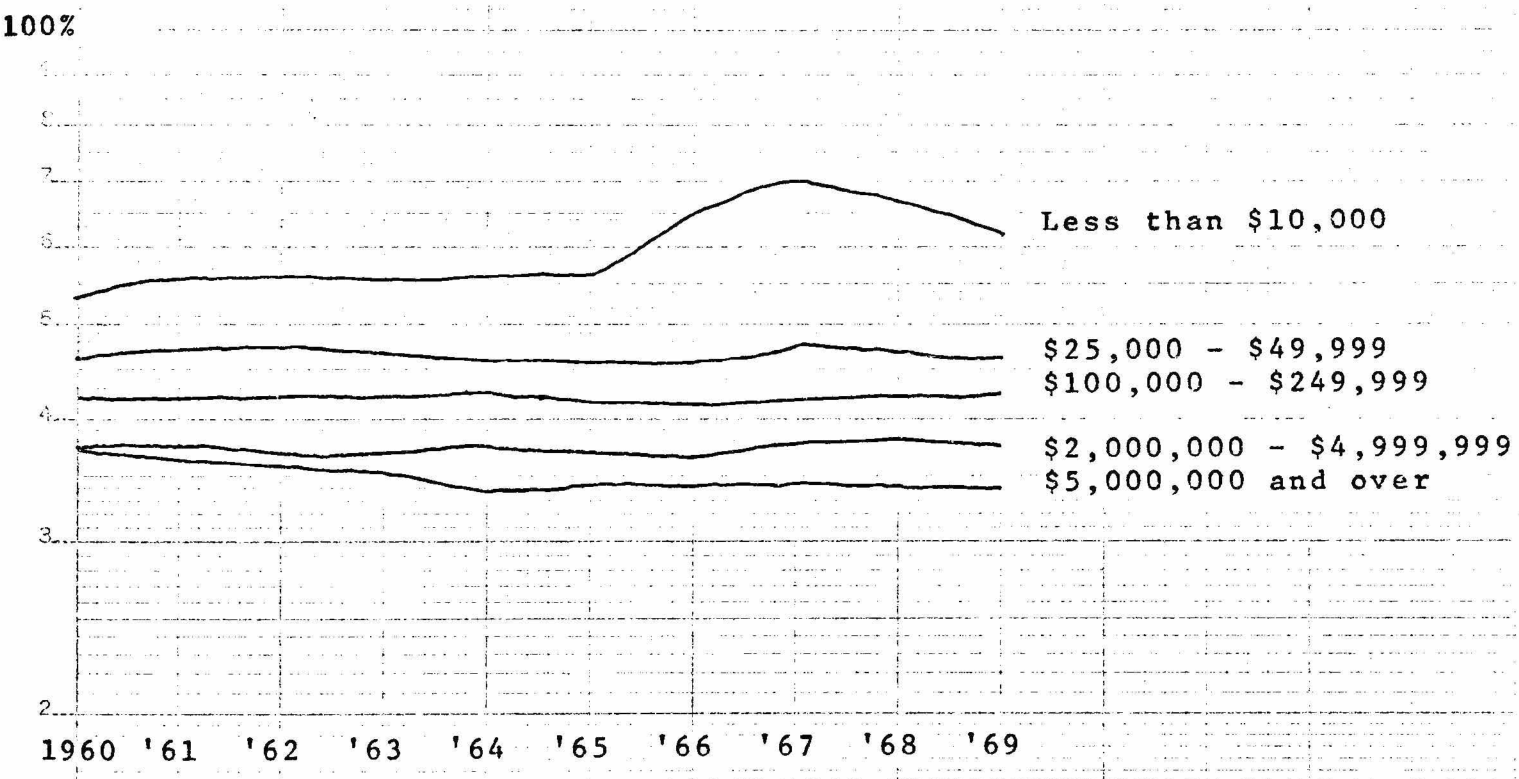
PERCENTAGE OF TOTAL EXPENSES TO GROSS INCOME FOR FEDERAL CREDIT UNION OPERATIONS, BY ASSET SIZE, AS OF DEC. 31, 1960-1969

Year	Total	Less than $10,000	$10,000-24,999	$25,000-49,999	$50,000-99,999	$100,000-249,999	$500,000-999,999	$2,000,000-4,999,999	$5,000,000 and over
1960	40.2	53.8	47.6	46.0	43.5	42.4	41.2	37.1	37.2
1961	40.1	55.4	48.4	47.2	44.4	42.5	40.5	37.4	36.8
1962	39.4	56.0	49.2	47.3	44.5	42.5	39.8	36.5	35.7
1963	39.1	55.0	48.8	46.5	44.2	42.6	39.8	36.8	35.3
1964	38.6	56.1	48.0	45.8	44.0	42.3	39.6	37.1	33.9
1965	38.0	55.7	47.9	45.6	42.5	41.3	39.2	36.8	34.2
1966	37.9	65.8	49.1	45.3	42.9	41.3	39.0	36.5	34.4
1967	38.3	69.9	50.8	47.9	43.5	41.9	39.7	37.6	34.5
1968	38.4	66.6	50.2	46.7	44.4	42.1	40.1	38.4	34.4
1969	38.2	61.7	50.4	45.8	44.7	42.8	40.1	37.8	34.1

Sources: Annual Report of Bureau of Federal Credit Union, 1960-1969.

GRAPH IX

PERCENTAGE OF THE TOTAL EXPENSES TO GROSS INCOME OF FEDERAL CREDIT UNIONS, BY ASSET SIZE



Sources: <u>Annual Report of Bureau of Federal Credit Union</u> 1960-1969.

Logarithmic
10 to the inch

implied. Only small credit unions seem to have had a significant rise in expenses relative to income. The real problem seems to be upward pressure on dividends. The higher rates paid by competing institutions are forcing credit unions to give more attention to their dividend rates. As they try to pay higher dividends, they are forced to take a closer look at their expenses.

If the market rate on personal savings accounts continues to rise in the future, the income squeeze on credit unions will intensify. As the pressure to maintain or even increase the margin between income and expenses increases, credit unions will be forced to decide between two alternatives. One alternative would be to raise the twelve per cent limit on loan ratio. This, however, is not an attractive offer because there would then be little or no difference in the loan rates charged by credit unions and their major competitors. A second alternative would be for credit unions to reduce their costs of operation. This alternative seems more attractive and should receive more attention even if the first alternative is attempted.

CHAPTER VII

AN ANALYSIS OF CREDIT UNION PROBLEMS FROM THE CREDIT UNION LEVEL

Introduction

The purpose of this chapter is to reveal how individual credit union managers feel about their current operation and the operation of the industry. Their opinions are compared with the opinions of league directors which were presented in the preceeding chapter. This comparison serves as a partial check on the degree of communication and coordination between the two organizational levels.

Comparisons are based on a judgement sample taken from credit unions in the fifth district of CUNA. This district includes Arkansas, Kansas, Missouri, Oklahoma and Texas. Forty credit unions were selected by R. L. Shultz, Managing Director of the Arkansas Credit Union League, with the assistance of representatives from each of the other four leagues in the district. The sample was comprised of credit unions known to have relatively articulate managers, and it also covered a broad enough range of asset sizes to provide adequate representation on that basis. Of the forty credit unions contacted, twenty-three responded. Response was particularly low from small credit unions.

Based on the amounts of assets, the median size of the 23 credit unions was $2,512,324. Twenty-two of the twenty-three had average assets of $2,885,108 and an average membership of 3,035. One credit union was omitted from the average because of its exceptionally large size--assets of more than $45 million and membership of more than 40,000. The average credit union in the United States has assets of $667,803 and a membership of 910.[1] Therefore, the credit unions surveyed are more than three times larger than the national average. Fourteen of the twenty-three held federal charters and nine held state charters. The common bond of all twenty-three was based on occupation.

The balance of this chapter is divided into three sections--competition, problems of credit unions, and summary. The first two sections are comparable to material in Chapters IV, V, and VI.

Competition of Credit Unions

This section reveals what individual credit union managers thought about current competitive conditions. In many cases the questions asked were the same that were asked at the league level, so the responses are comparable.

When asked in what area they felt credit unions face their strongest competition--in competing for members' savings or consumer credit--eleven (48%) said savings and

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[1] International Credit Union Yearbook 1970, pp. 26-27.

twelve said consumer credit. At the league level, seventy-one per cent of the directors had said it would be in the area of savings.

Credit union managers were also asked to identify their three strongest competitors in the market for savings and in the market for consumer credit. Their responses are summarized in Tables XXI and XXII. In the market for savings, the managers picked the same two major competitors as did league directors--banks and savings and loan associations. They did not, however, put them in the same order. Directors picked banks as the strongest competitor by a margin of fourteen to thirteen. The credit union managers picked savings and loan associations by a vote of seventeen to four.

Government securitires, especially Series E bonds, were picked as the third strongest competitor. Stocks were in a close fourth position. These results are only slightly different from those obtained at the league level.

In the market for savings, credit union managers and league directors seemed to agree on the industry's major competitors. Their only major disagreement was on which of the two top competitors was the strongest. This, however, does not seem to be a problem since they both agree that banks and savings and loan associations are very strong competitors. Any successful program to improve the competitive position of credit unions would need to be directed at both competitors.

TABLE XXI

COMPETITORS OF CREDIT UNIONS IN THE SAVINGS MARKET
(Responses from 23 Credit Unions)

Sources of Competition	Strongest Competitor	2nd Strongest Competitor	3rd Strongest Competitor
Bank	4	10	4
Savings and loan	17	3	3
Series E savings bonds	0	4	6
Series H savings bonds	0	0	0
Other federal government securities	1	2	2
Municipal bonds	0	0	0
Stocks	1	4	5
Other	0	0	2

TABLE XXII

COMPETITORS OF CREDIT UNIONS IN THE CONSUMER CREDIT MARKET
(Responses from 23 Credit Unions)

Sources of Competition	Strongest Competitor		2nd Strongest Competitor		3rd Strongest Competitor	
Personal bank loans	7	10	3	9	5	8
Bank credit cards	3		6		3	
Retailer credit and charge cards	5	6	3	10	4	6
Retailer instalment credit	1		7		2	
Finance companies	5		3		8	
Savings and loan	1		0		1	
Pawn Brokers	0		0		0	

Individual credit union leaders and league directors seemed to be in complete agreement on the industry's major competitors for consumer credit. The responses presented in Table XXII are almost identical to those received from league directors. Commercial banks, retailers and finance companies were considered the strongest, second strongest, and third strongest competitors, respectively.

Leaders of the credit union industry at both the league and credit union level believed that the industry faces strong competition for both savings and consumer credit. They also agreed that banks, savings and loan associations, government securities and stocks are the major competitors for savings. For consumer credit, banks, retailers, and finance companies were said to be the major competitors.

Banks are one of the strongest competitors of credit unions, and they are the only competitor that is strong in both the market for savings and the market for consumer credit. Banks offer essentially the same services as credit unions plus many others. Banks already have direct contact with most credit union members through their checking and savings accounts. They are in the best position of all competitors to take advantage of credit union weaknesses. Credit unions should be very sensitive to their activities. The plans and policies of banks should be one of the most important considerations of credit unions as they plan for the future. Credit unions could make no bigger mistake than to set a course of action that ignores the actions of banks.

Problems of Credit Unions

The purpose of this section is to reveal what problems individual credit union leaders feel are currently the most challenging. The twenty-three credit unions who took part in the survey were given a list of problems and asked to indicate the five most challenging problems for their particular credit union. They were then asked to indicate which of the problems they felt were the most challenging for all credit unions.

Table XXIII presents a summary of the major problems of the twenty-three credit unions surveyed. Table XXIV summarizes what leaders of the twenty-three credit unions felt are the major problems of all credit unions. In descending order of importance, the major problems of the credit unions surveyed are: rising expenses, a rising rate of loan delinquency, lack of growth in membership, competition for savings and consumer credit, lack of qualified leaders, and a failure to attract young people. For the nation, they felt that the major problems are: rising expenses, a rise in loan delinquency, lack of qualified leaders, a failure to attract young people, and competition, especially for consumer credit. To obtain more insight on certain of these and other problems, the credit unions were asked additional questions.

Rising Expenses

Leaders of the twenty-three credit unions surveyed were asked to indicate, in descending order of importance, their five biggest problems. Fifteen of the twenty-three

TABLE XXIII

PROBLEMS THAT CREDIT UNION LEADERS FEEL ARE THE MOST CHALLENGING FOR THEIR CREDIT UNION

Problems	Most Challenging	2nd Most Challenging	3rd Most Challenging	4th Most Challenging	5th Most Challenging	Total
1. Rising expenses	7	3	3	1	1	15
2. Rising rate of loan delinquency	5	3	2	2	1	13
3. Lack of qualified leader	1	1	2	2	3	9
4. Lack of cooperation from members	1	1	0	0	0	2
5. Lack of cooperation from employer	0	0	0	0	1	1
6. Lack of cooperation from the league	0	0	0	0	0	0
7. Lack of cooperation from national organizations	0	0	0	1	1	2
8. Lack of growth in membership	1	1	3	4	1	10
9. Current high level of unemployment among members	1	0	0	0	1	2
10. Small number of potential members	2	0	1	0	0	3
11. Ceiling on the rate that can be charged on loans	0	2	0	1	0	3
12. Low return on share accounts	0	1	0	1	0	2
13. Savings are growing slower than loan demands	0	2	1	0	1	4
14. Failure to attract young people	0	0	2	3	2	7
15. Aggressive competition for loanable funds	1	3	1	2	2	9
				3	1	10
16. Aggressive competition for credit	2	2	2			
17. Excessive work caused by legal requirements	1	1	1	1	3	7
18. Meeting the needs of the poor	0	1	2	0	1	4
19. Poor investment opportunities for excess funds	0	0	0	0	0	0
20. Other	0	1	1	1	2	5

TABLE XXIV

PROBLEMS THAT CREDIT UNION LEADERS FEEL ARE THE MOST CHALLENGING FOR THE CREDIT UNION INDUSTRY

Problems	Most Challenging	2nd Most Challenging	3rd Most Challenging	4th Most Challenging	5th Most Challenging	Total
1. Rising expenses	8	4	0	0	3	15
2. Rising rate of loan delinquency	5	3	2	2	2	14
3. Lack of qualified leader	3	4	4	1	2	14
4. Lack of cooperation from members	0	0	0	0	1	1
5. Lack of cooperation from employer	0	0	0	0	0	0
6. Lack of cooperation from the league	0	1	0	0	0	1
7. Lack of cooperation from national organizations	11	1	0	0	0	2
8. Lack of growth in membership	11	2	6	0	0	9
9. Current high level of unemployment among members	0	0	1	0	1	2
10. Small number of potential members	1	1	0	0	1	3
11. Ceiling on the rate that can be charged on loans	0	0	1	1	1	3
12. Low return on share accounts	0	1	0	0	0	1
13. Savings are growing slower than loan demands	0	0	1	1	1	3
14. Failure to attract young people	3	1	2	7	1	14
15. Aggressive competition for loanable funds	0	2	0	1	1	4
16. Aggressive competition for credit	0	0	2	7	2	11
17. Excessive work caused by legal requirements	0	1	0	1	1	3
18. Meeting the needs of the poor	0	1	1	1	2	5
19. Poor investment opportunities for excess funds	0	0	0	0	0	0
20. Other	1	0	2	1	0	4

listed rising expenses as one of their five most challenging problems. Seven of the fifteen listed it as their number one problem. In view of what was revealed in Chapter VI, these results were surprising. In Chapter VI, it was concluded that while certain expenses were rising, expenses as a percentage of gross income have been relatively constant for all credit unions except those with assets of less than $10,000.

To learn more about changes in expenses, each credit union was asked to select one of five descriptions of their ratio of expenses to gross income for the past two years. Their responses are presented below:

14	1.	Rising slowly
3	2.	Rising rapidly
1	3.	Declining slowly
0	4.	Declining rapidly
5	5.	No change

For seventeen of the twenty-three respondents, expenses as a percentage of gross income have either increased rapidly or have increased slowly. Only one reported that the ratio had declined in the past two years.

To learn which expenses were rising and falling the most, the credit union managers were asked to select those that were either rising or falling as a percentage of total expenses. As a percentage of total expenses, salaries, borrowers protection insurance and life savings insurance were considered to be rising the fastest. The cost of space occupied and depreciation were declining the fastest. A summary of all responses is presented in Table XXV.

TABLE XXV

CHANGES IN EXPENSES OF CREDIT UNIONS

Expenses	Rising as a % of Total Exp. The Fastest	2nd Fastest	3rd Fastest	Total	Falling as a % of Total Exp. The Fastest	2nd Fastest	3rd Fastest	Total
1. Salaries	10	2	1	13	0	0	0	0
2. Borrowers protection insurance	6	5	1	12	1	0	0	1
3. Life saving insurance	2	4	4	10	2	1	0	3
4. League dues	0	1	2	3	0	1	1	2
5. Surety bond premium	0	0	0	0	0	1	2	3
6. Examination and supervision fees	1	3	2	6	0	0	0	0
7. Interest on borrowed money	1	1	1	3	3	1	0	4
8. Cost of space occupied	0	2	1	3	6	0	1	7
9. Educational expenses	1	1	2	4	0	1	1	2
10. Depreciation	0	0	1	1	0	6	1	7
11. Communications	0	3	1	4	1	2	1	4
12. Promotion	0	1	2	3	1	0	1	2
13. Others	3	0	2	5	0	0	0	0

The problem with expenses as described by the twenty-three managers contrasts with other information available. For one thing, it was revealed in Chapter VI that during the 1960's expenses were a constant or declining percentage of gross income for most credit unions. They also reported that as a percentage of total expenses salaries were rising the fastest. Cost figures for all federal credit unions reveal that during the 1960's salaries declined as a percentage of total expenses. In 1968 they were 40.9 per cent of total expenses; in 1969 they were 39.7 per cent of total expenses. Credit union managers also reported that life savings and credit life insurance premiums were rising, but the figures for all federal credit unions show that between 1964 and 1969 they were a relatively constant percentage of total expenses.[2]

While the credit unions surveyed do not seem to reflect national averages, they might reflect on what problems get the most attention at the credit union level. The ten per cent increase in the cost of supplies announced by CUNA was something each credit union could see and evaluate. On the other hand, they may have much more difficulty evaluating the importance to their particular credit union of attracting youth or obtaining new legislation. This same reasoning might also explain why forty-three per cent of the credit unions considered rising loan delinquency one of their top

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[2]Annual Report of the Bureau of Federal Credit Unions, 1960-1969.

three problems while only three per cent of the league directors considered it a problem.

Rising Rate of Loan Delinquency

Thirteen of the twenty-three credit unions indicated that an increase in delinquencies was one of their major problems. Five of the thirteen considered it their biggest problem. According to a recent research report from NCUA, their concern could be justified.

In the report, it was argued that the loan delinquency record of credit unions has not improved in the past five years and may have deteriorated. The argument is based on the following reasoning. Traditionally large credit unions have had a smaller loan delinquency rate than have small credit unions. Thus, as the average size credit union gets larger the loan delinquency rate for the industry should decline. This was exactly what happened up until 1965. Since that time, the average-sized federal credit union has increased from $450 thousand to $600 thousand, or by about thirty-five per cent. But the industry's rate of loan delinquency has remained constant.[3] Consequently, it is possible that credit unions are having more difficulty with rising loan delinquencies.

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[3]National Credit Union Administration Research Report No. 4 (Washington: U.S. Government Printing Office, January, 1971), pp. 1-6.

<u>Attracting the Young</u>

Seven of the twenty-three credit unions indicated that the failure to attract young people was a problem. It should be recalled that the new president of the World Council of Credit Unions also listed it as a major problem. When asked if they were making any special effort to attract young members, eleven of the twenty-three credit unions reported that they were. Only two of the seven credit unions which indicated that attracting young people was a problem are making any special effort to attract the young.

<u>Ceiling on Loan Rates</u>

Only three credit unions considered the twelve per cent annual limit on loans to be a problem. This seems a little unusual in view of the tremendous emphasis they placed on rising expenses. They evidently have sufficient income to meet the current challenge. This was partly substantiated by their answers to another question. When asked what effect recent increases in the rate paid on deposits by competing financial institutions had on their credit union, they gave the following replies.

10	1.	Caused a small reduction in the growth rate of savings
0	2.	Caused a substantial reduction in the growth rate of savings
6	3.	Caused a small increase in the rate of saving withdrawal
1	4.	Caused a substantial increase in the rate of savings withdrawal
8	5.	Caused an increase in dividend rate
0	6.	Caused an increase in the rate charged on loans
7	7.	Little or no effect
4	8.	Others

Eight of the twenty-three had to raise dividends and it did not force any of them to raise their rates on loans. When asked what rates they were currently charging on various type loans, thirteen reported an annual rate of twelve per cent for all loans. The three largest credit unions--assets in excess of $7 million each--reported annual rates of 9.6, 9,6, and 9.48 per cent. One of the three only charged eight per cent on auto loans. Ten of the twenty-three charged less than twelve per cent on auto loans.

The credit unions were not asked if they gave interest refunds to borrowers, but in 1969, 17.6 per cent of all federal credit unions paid interest refunds equal to three per cent of the gross income of all federal credit unions. This was down from 3.7 per cent of the gross income paid out in 1968.[4]

As was concluded in Chapter VI, credit unions are beginning to feel a squeeze between income and expenses. At the present time, however, the squeeze does not seem to be excessive, especially for credit unions as large as those in this survey.

Operation of the Credit Union Industry

When asked if they were satisfied with all segments of the credit union industry, ten of the credit union managers said no. Most complaints concentrated on the lack of qualified leaders at the league and national levels. In

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[4] Annual Report of the Federal Credit Union Program, 1969, p. 13.

Table XXIII it can be seen that eight managers felt that the lack of qualified leaders is also a problem at the credit union level.

Complacency seems to be the major charge against league and national leaders. The report from one credit union stated that leaders do not act until forced to; another complained that national and some league leaders are not progressive enough. A third complained that leaders do more talking than acting when it comes to innovation. As an example, leaders talk of stimulating young members but are reluctant to let them hold responsible positions.[5] Another credit union leader complained that CUNA spends too much of its budget on meetings, travel, and conferences.

One credit union leader said that the industry should spend more to inform the public about credit unions. Another manager complained that credit unions have fallen behind other institutions in the consumer lending industry and that new legislation is needed to help them regain their position.

The complaints given should not hide the fact that twelve of the twenty-three credit unions said they were satisfied with all aspects of the industry. And, only two of the twenty-three felt that the lack of cooperation at either the league or national level ranked among their five biggest problems.

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[5]The same opinion was recently expressed in an article on page 14 of the August, 1971 issue of The Credit Union Magazine.

Legal Environment

Each of the twenty-three credit unions were asked to comment on the new share insurance legislation and on their support for a central bank. Sixteen said they supported share insurance; five opposed it, and two were undecided. The arguments for and against share insurance were about the same as those presented in Chapter IV. Those in favor felt that it would increase deposits and would protect each individual from the possible loss of his savings. Credit unions which opposed the insurance listed several objections:

1. It is costly and time consuming.
2. It is not necessary; credit union could do the same thing without government regulation.
3. It may force some small credit unions to liquidate.

The opinions expressed indicate that credit union managers and league directors share the same opinion on share insurance--some oppose it, but most support it.

Support for share insurance is not shared by the proposed central bank. Only nineteen of the twenty-three credit union managers felt competent enough to comment on the issue. Nine of the nineteen felt that the bank would not benefit their credit union. Only one of the nine gave a specific reason for his feelings. He felt that the present central credit unions were sufficient.[6]

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[6]Central credit unions are special credit unions organized to provide credit union services to other credit unions and/or to officials of other credit unions. Some serve as a depository for excess credit union funds and may make loans to affiliated credit unions.

Credit unions in favor of a central bank gave several reasons for their support.

1. It would increase the liquidity of credit unions.
2. It would increase the flexibility of credit unions.
3. It would permit credit unions to serve members while they were traveling.
4. It would improve cooperation between credit unions.
5. It would help credit unions which have checking services.

National leaders have evidently not spent enough effort on informing credit unions about the functions of a central bank. This view is supported by the fact that thirteen of the twenty-three credit unions surveyed seemed to know little about its purpose. On the other hand, the ten credit unions which felt that the bank would help them illustrated by the reasons they gave for supporting it that they did understand its function. This would imply that as more credit unions learn about the function of a central bank, it will gain more support.

Summary

The twenty-three credit unions surveyed seem to share much more concern for rising expenses than other sources of information would justify. Increases in expenses have not, however, forced any of the credit unions to raise the rates they charged on loans, and only two of them considered the ceiling on loan rates one of their three major problems.

The ability of these credit unions to absorb rising cost is partly explained by their exceptionally large size. They also expressed greater concern over rises in delinquent loans than did league directors. A NCUA report reveals that their concern may be justified.

On the problems of competition and training for leaders, credit union managers and league directors shared about the same degree of concern. Credit union leaders expressed the feeling that leadership at all levels of the credit union industry needs to be upgraded. Their major complaint was that leaders at the national and some at the league level are not progressive enough.

Application of new technology to the operation of credit unions is an area in which individual credit union leaders and league directors had diverse opinions. League directors felt that it was the biggest problem for credit unions. But, only two of the credit unions surveyed indicated that it was a problem, and then as only their fifth largest problem. The lack of concern over new technology can be partly explained by the fact that nine of the twenty-three credit unions surveyed (39%) were already using electronic data processing. This was four times higher than the national average. So, many of them have already solved a big part of the problems associated with applying new technology. This does not, however, explain why the other fourteen did not consider it a major problem. Only four of the remaining fourteen said they planned to begin using electronic data processing in the next two years. Evidently they did not feel any great need to apply new technology. In this case, league directors may be overemphasizing the problem.

CHAPTER VIII

CASE STUDY OF A CREDIT UNION

Introduction

The purpose of this chapter is to present a case study of one credit union. The study provides insight on the actual operation of a credit union. It may also provide an opportunity to evaluate how well the material presented in previous chapters applies to an individual credit union.

The UARK Federal Credit Union was selected for the study. It was selected partly because of the willingness of officers to cooperate fully. Also, its small size was an important consideration because small credit unions have a more challenging future than do larger credit unions. The expenses and loan delinquency rates of small credit unions are higher, and they have less opportunity to hire experienced leaders to help solve their problems.

Data collected for the study came from two sources. One source consisted of interviews with the credit union's executives and a study of the credit union's records. The second source consisted of a questionnaire sent to all members and potential members of the credit union. The two sources provided a basis on which to analyze the credit union's strong and weak points.

The balance of this chapter is divided into four sections. The first section describes the community in which the credit union operates. This is followed by a section on the official view of the credit union's operation. It includes the credit union's history, an analysis of its records, and the opinions of its executives. The next section presents an analysis of the questionnaire survey. In the last section, findings are summarized and recommendations are made.

Operating Environment

The UARK Federal Credit Union is located at the University of Arkansas in Fayetteville, Arkansas. Being located in Arkansas places the UARK in a situation uncommon to most credit unions in the nation. Arkansas law sets the maximum annual rate of interest charged on all forms of credit at ten per cent.[1] So while most credit unions in the nation are permitted to charge one per cent per month on an outstanding balance, state-chartered credit unions in Arkansas may charge only 5/6 of one per cent. Many federal credit unions in Arkansas charge one per cent, but their legal right to do so has not been tested in court.

Fayetteville is located in the extreme northwest corner of Arkansas. It has a population of 30,729, and it is the largest city in a sixty-mile radius. Fort Smith is located sixty miles to the south, and it has a population of

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[1]Ark. Const. Art. 19s, sec. 139.

62,802.[2] The University is the largest employer in Fayetteville.

Because of the state's ten per cent limit on all interest charges, the citizens of Fayetteville do not have the same access to consumer credit as do citizens of other states. Retailers such as Montgomery Ward, J. C. Penney and oil companies provide consumer credit just as they do in other states but at an annual rate of ten per cent rather than the eighteen they charge in most other states. To this extent, Fayetteville citizens seem to have an advantage over citizens of other states. The advantage, however, may be more imaginary than real. A study has shown that retail prices are higher in Arkansas than in neighboring states. This means that cash customers are probably subsidizing credit customers. Fayetteville citizens are at a disadvantage when they need small cash loans for emergencies, home repair, debt consolidation or other purposes. Financial institutions which normally make this type of loan are not motivated to do so in Fayetteville because of the ten per cent limit on interest charges.[3]

Fayetteville has two commercial banks, two savings and loan associations, one finance company and several pawnbrokers. Interviews with loan officers at both banks

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[2]U. S. Department of Commerce, Bureau of the Census, 1970 Census of the Population, Vol. II, General Population Characteristics-Advance Report, pt. 5. Arkansas.

[3]G. C. Lynch, "Consumer Credit at Ten Per Cent Simple," University of Illinois Law Forum, XXXIIMM (Winter, 1968), 592-620.

revealed that they are not very interested in consumer loans. When asked if his bank had an aggressive consumer loan policy, a representive of one bank replied: "Not too damn aggressive. Our general rule is to limit loans to customers only. Accept little risk." When asked if he favored the ten per cent limit on loans, he replied that he and other bank officers supported the ten per cent limit. When asked why, he gave this reply: "Higher rates would attract more unhealthy competition--finance companies and credit unions." Concerning credit unions, he said: "They can hurt you bad."[4]

A representative of the other bank said that his bank did not have a well defined consumer credit policy. Depositors of the bank have first preference on consumer loans. Students and young married people are also desired customers. Members of the university's faculty can get almost any kind of loan they want. At least thirty per cent of all loan applications cannot be handled because of the lack of sufficient loanable funds or other reasons. Almost all loans over $500 must be secured. When asked if he favored the ten per cent limit on loans, he indicated that he did not. He feared that raising the limit would bring in new competition, but thought the bank would still benefit. Raising the rate would permit the bank to extend more consumer credit. He commented that upward pressure on money rates had eliminated the bank's profits on loans of less

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[4]Barker Adair, private interview held at the First National Bank in Fayetteville, Arkansas, August 17, 1970.

than $500. A higher return was needed to stimulate the bank's interest in small loans.[5] Officials at neither bank were aware of the UARK's existence.

Neither bank makes mobile home loans, but both expect to in the near future. Both banks also charged a minimum fee of $5.00 for all loans of $75 or less regardless of whether it was for a day or six months maturity.[6] For a six month noninstalment loan of $50, the annual effective rate of interest is twenty per cent. The twenty per cent rate is twice as high as Arkansas law permits. This disclosure is not presented for the purpose of condemning the banks but rather as a basis for comparison of the advantages the UARK Federal Credit Union offers its credit customers.[7] A summary of the characteristics of each bank as they were on June 16, 1971 is presented below.

	First National Bank	McIlroy Bank
Interest rate charges	8 - 8½%	10%
Interest rate paid on savings and time deposits	4½%	4½ - 5% on 90 day deposits
Loan limits (unsecured)	$5,000	Variable
Average size of time deposits	$1,700	Not available
Average customer income	$6,000/yr.	$6,000/yr.
Major advertising media	Newspapers	Newspapers

[5]George Edwards, private interview held at the McIlroy Bank in Fayetteville, Arkansas, August 19, 1970.

[6]Barker Adair, Private interview held at the First National Bank in Fayetteville, Arkansas, August 17, 1970.

[6]Jim Shreve, Telephone interview with the McIlroy Bank in Fayetteville, Arkansas, November 8, 1971.

[7]The policy of charging a minimum finance charge of $5.00 on loans of $75 or less follows the guidelines established by the Federal Reserve in Regulation Z.

The city's two savings and loan associations limit all their loan activities to real estate and they make no unsecured loans. The only area in which they now represent a challenge to the UARK is in home improvement loans. One makes very few such loans. The other has 15-20 per cent of its total loans in the area and only charges an annual rate of 8.5 per cent. Both savings and loans pay the same return on savings. Passbook savings earn five per cent while certificates of various maturities earn 5.25, 5.75 and 6 per cent.

Fayetteville's only finance company office is operated by Universal C. I. T. Credit Corporation. But according to Daune Rowe, office manager, the office stopped making personal loans in February, 1970, and stopped making wholesale loans on July 15, 1970. The office is making no new loans and is now simply liquidating outstanding loans. One of the firm's two offices in Fort Smith has been closed. According to Mr. Rowe, the office was caught between the rising cost of funds and the ten per cent ceiling on loans. Even when the cost of funds was lower, the office had to be very selective in extending credit.[8]

The consumer credit facilities in Fayetteville do not seem to be comparable with those in most other cities, especially for high risk loans. The two commercial banks

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[8]Daune Rowe, private interview held at a C. I. T. loan office in Fayetteville, Arkansas, August 17, 1970.

are not eager to extend consumer credit, and there are no finance companies readily available.

This environment places the UARK Federal Credit Union in an unusual competitive position. It must compete for savings with the same institutions that credit unions all over the nation compete with. But for consumer credit, it must compete with retail sources of credit that have interest charges just as low as those the credit union offers. However, it does not face aggressive competition from either commercial banks or finance companies. Banks are willing to make only low risk loans and the loans are made at an annual rate of ten per cent or less. So for the most desirable loans, the UARK is denied the interest rate advantage shared by most credit unions in the nation. Higher risk loans should be more readily available to the UARK. Banks do not want them and there are no convenient finance companies to take them.

Development of the UARK

The UARK Federal Credit Union was actually not the first credit union for University of Arkansas employees. In fact, the UARK might not exist today if it were not for the existance of a previous credit union.

University Credit Union was the first one on campus. It received a state charter on August 18, 1958. Membership in the credit union reached 131 in 1960. At that time the credit union had more than $10,000 in loans outstanding and over $11,000 in share balances. After 1960, membership began to taper off and then decline. A suggestion to liquidate was made at an annual meeting in May, 1964. No action was taken at that time, but in May, 1965, the University Credit Union was liquidated. While in operation, it never paid a dividend, but the seventy-six members at the time of liquidation did receive a six per cent dividend.[9]

Just what caused the failure of the University Credit Union is not certain, but there were several possible causes. For one thing, the credit union never received strong support from the University. The University's attitude was one of complacency--neither for nor against it. Also, the credit union failed to obtain strong support from most of its members. Most of them purchased only one share. A few devoted members purchased the bulk of all shares. The lack of an adequate promotion program was another factor. Membership drives consisted mostly of personal contacts and a few personal letters, neither of which were very effective. The credit union's former president summarized the problems as follows:[10]

1. Failure to reach those that really needed to borrow.
2. Members would obtain loans at the bank because the credit union could not make large loans.
3. Lack of real closeness on the part of members.
4. Most members only purchased one share.

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[9]John White, private interview held at the University of Arkansas in Fayetteville, Arkansas, August 19, 1970.

[10]*Ibid*.

A clear outline of what was probably the biggest problem of the credit union is hidden by time and a lack of information. It seems that organizers of the credit union were mostly faculty members. They seemed to be skeptical of opening the credit union's doors to all university employees, especially non-faculty personnel. A former president of the credit union said that it was difficult to extend a loan to unfamiliar people in other departments.[11] This attitude alienated many university employees, especially those in the physical plant division.

Because the University Credit Union did not meet their needs and because they had recently endured the financial strains that accompany a strike, employees in the physical plant division of the University organized another credit union. They received a federal charter on August 24, 1965, three months after University Credit Union liquidated. The common bond set forth in the credit union's charter limited membership to:

> Employees of the University of Arkansas who work in Fayetteville, Arkansas: employees of the credit union; members of their immediate families; and organizations of such persons.

This credit union was first named The University of Arkansas Federal Credit Union. But because the University did not want the name to mislead employees into thinking that it was an organization of the University, the name was

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[11]John White, private interview held at the University of Arkansas in Fayetteville, Arkansas, August 19, 1970.

changed to the Lafayette Federal credit Union on August 31, 1965. In November, 1965, the name was changed to Sequoyah Federal Credit Union. Then in July, 1970, the name was changed to UARK Federal Credit Union.[12]

The initiative for organizing the UARK Federal Credit Union was concentrated in the physical plant division of the University. Table XXVI reveals that as of September 30, 1968, the UARK had considerable support from the faculty and clerical personnel, but that physical plant personnel were still the backbone of the credit union. But there have been efforts to involve other divisions of the University. A member of the faculty was elected president on August 5, 1969. The credit union's Board of Directors was also expanded to nine members to permit broader representation from all university divisions.[13] In 1970, the board was composed of four faculty members, two administrative personnel, and three employees of the physical plant division. However, two of the three members of the Credit Committee were from the physical plant division. The UARK has not been successful in attracting many of the employees classified as miscellaneous. The University has placed almost twenty-two per cent of its employees in the miscellaneous (food service, housing, etc.) classification. They are among the lowest

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[12]UARK Federal credit Union, Minutes of Meetings of the Board of Directors, 1965-1970. (hand and typewritten)

[13]Section 12 of the Federal Credit Union Act says that the a credit unions shall be managed by a board of not less than 5 directors.

TABLE XXVI

DISTRIBUTION OF UARK MEMBERS AND UNIVERSITY EMPLOYEES AMONG SEVEN EMPLOYEE CLASSIFICATIONS[a]

	Distribution of UARK Members			
Employee Classification	Members With a Credit Union Loan	Members That Currently Do Not Have a Loan	Distribution of Those With and Without Loans (Percentage)	Distribution of All Univeristy Employees[b] (Percentage)
Professional (Faculty)	1	9	13.2%	28.2%
Administrative	1	1	2.6	6.0
Professional (Non-teaching)	2	0	2.6	6.9
Stenographical and Clerical	6	5	14.5	11.8
Miscellaneous (Food service, housing, etc.)	1	4	6.6	21.7
Physical plant	26	19	59.2	24.6
Coaching staff	0	1	1.3	.8
Total	37	39	100.0%	100.0%

[a]This table represents the author's attempt to classify UARK members according to the seven employee classifications supplied by the University. The author worked from a list of UARK Federal Credit Union members dated Sept. 30, 1968. The list contained the names of 118 members, but only 76 could be classified with reasonable accuracy. For these reasons, the table is not completely reliable, but it is useful for determining basic distribution patterns.

[b]This distribution is based on University records.

paid of all University employees and are probably in the most need of credit union services.

Table XXVII reveals that growth in the UARK's membership has been less persistent than has the growth in either assets or shares. Total membership stabilized in 1967, 1968, and 1969. It then shot upward in the first half of 1970. The rapid increase in membership in 1970 was attributed to a promotion campaign the credit union put on to sign up members for a new insurance plan.

The UARK began offering its members the service of payroll deduction on July 1, 1967. Members are offered the opportunity to purchase shares through a regular payroll deduction plan. If a credit union member has a loan, he can purchase shares through payroll deductions and the credit union will then transfer the shares to retire his loan. In February, 1968, payroll deductions amounted to $456 per month. In July, 1970, the credit union was collecting approximately $2,000 a month through payroll deductions, and the credit union's assets were growing at an average rate of $1,000 a month. Members that borrow from the credit union are not required to use payroll deduction, but they are strongly encouraged to do so.[14]

The UARK has been reasonably successful in controlling its expenses. Income began to exceed expenses in 1968, and according to the figures in Table XXVIII it has continued

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[14]Lyell Thompson, private interview held at the University of Arkansas, Fayetteville, Arkansas, August 18, 1970.

TABLE XXVII

ASSETS, LIABILITIES, AND ACCOUNTS OF THE UARK FEDERAL CREDIT UNION: AUGUST 1965 - JUNE 1970

	Assets			Liabilities				
Date[a]	Cash	Loans	Total Assets	Shares	Required Reserves	Special Res. for Del. Loan	Undivided Earnings	Number of Accounts
Aug. 31, 1965	$ 89	$ ---	$ 89	$ 80	$ 9			39
Dec. 31, 1965	280	10	374	327	15		(27)	60
Dec. 31, 1966	89	648	837	851	20		(34)	77
Dec. 31, 1967	59	2,056	2,148	2,232	30		(132)	110
Sept. 30, 1968	52	4,472	4,530	4,520	40		(132)	118
Dec. 31, 1969	326	7,779	9,106	7,588	110		107	127
Jan 31, 1970	589	7,957	8,903	8,329	169		319	149
June 30, 1970	319	12,702	13,021	12,590	193	68		237

[a]Different dates in some years are used because the records of the UARK Federal credit Union are incomplete.

Source: Records of the UARK Federal Credit Union, Fayetteville, Arkansas.

upward. For the year ending December 31, 1969, expenses were fifty-four per cent of gross income. The national average for similar size credit unions was sixty-two per cent.[15]

Table XXVIII also reveals that the UARK has not spent much on advertising. A newsletter every now and then, notices on bulletin boards, and an occasional notice in a campus bulletin are the principal means of advertising. The advertising program does not seem to be guided by a consistent policy. When payroll deduction became available to members, it was announced by a form letter to department heads and a notice in a campus bulletin. Direct mail contact with all members is relatively inexpensive because it can be sent free through the campus mail system.

The UARK's first dividend was approved on March 3, 1970. It was possible to pay the five per cent dividend because NCUA exempted the UARK from normal reserve requirement rules. Otherwise, it would have been necessary to pay a smaller dividend.[16]

The UARK has its office in one of the classroom buildings on campus. It consists of a desk against the wall in a well traveled part of the building. Records are kept in the desk and in a nearby filing cabinet. Office hours

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[15] Annual Report of the Federal Credit Union Program 1969, p. 88.

[16] UARK Federal Credit Union, minutes of meeting of the Board of Directors, 1970. (hand and typewritten)

TABLE XXVIII

INCOME AND EXPENSES OF THE UARK FEDERAL CREDIT UNION:
AUGUST 1965 - JUNE 1970

Time Period[a]	Income	Expenses: Borrowers Insurance	Expenses: Life Saving Insurance	Expenses: Security Bond Premium	Expenses: Education Fee	Expenses: Stationary & Supplies	Expenses: Total Expenses	Net Gain or (Loss)
Aug. 1965- Dec. 31, 1965	$ 0	$ 0	$ 1.00	$10.00		$16.30	$ 27.30	($27.30)
Year ending Dec. 31, 1966	37.46	2.91	3.97	7.50		9.11	45.14	(7.68)
Year ending Dec. 31, 1967	89.17	5.91	8.93	7.50	$6.45	81.03	186.73	(97.56)
Jan. 1- Sept.30, 1968	195.59	15.37	19.76	7.50		36.10	100.32	95.27
Year ending Dec. 31, 1969	574.04	44.01	46.71				308.85	265.19
1970 - Jan.	74.14						20.69	53.45
Feb.	86.37						189.48	(101.11)
March	63.47						54.16	9.31
April	90.28						36.56	53.72
May	73.64						15.51	58.13
June	103.61						15.57	88.04
Jan. - June	491.51						331.97	159.54

[a]This table is not divided into equal time periods and there are gaps in the information. This is a result of gaps in the records of the UARK Federal Credit Union.

Source: Records of the UARK Federal Credit Union, Fayetteville, Arkansas.

are 4:00 - 5:00 p.m. Tuesday and Thursday. A graduate student is in charge of the office. He said that most loans are small and of a personal nature. He also said that a member could obtain a loan in one day if he were willing to do the footwork necessary to get the approval of the three members on the Credit Committee. An annual rate of ten per cent is charged on all loans.[17]

As the assets of the UARK have increased, the credit union has been able to increase the maximum size of loans. In September, 1970, the ceiling on loans was raised to $1,400. This is still not large enough to enable the UARK to handle all auto loans. But, if assets continue to grow at the rate of $1,000 a month, the loan limit could be raised $100 each month.

Records of the UARK reveal that leaders of the credit union are now concerned about the problem of loan delinquency. At a meeting of the Board of Directors on May 5, 1970, delinquent accounts were said to be the most serious problem facing the credit union. A review of Table XXIX reveals that delinquent loans were actually a bigger problem in 1967 and 1968. The 4.3 per cent of total loans that were delinquent in June, 1970, was considerably less than the average percentage for all similar size federal credit unions.[18] This

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[17] Robert Garner, private interview held at the office of the UARK Federal Credit Union, Fayetteville, Arkansas, August 18, 1970.

[18] Annual Report of the Federal Credit Union Program 1969, p. 7.

TABLE XXIX

DELINQUENT LOANS OF THE UARK FEDERAL CREDIT UNION

Date (End of Year)	Amount of Delinquent Loans (Delinquent 2 Months or More)	Loan Outstanding	Delinquent Loans as a Percentage of Total Loans	Number of Delinquent Loans
1965	$ 0	$ 10	--	0
1966	0	648	--	0
1967	352	1,704	21%	3
1968	938	4,472	21%	9
1969	444	7,779	5.7%	4
June, 1970	551	12,702	4.3%	4

Source: Records of the UARK Federal Credit Union, Fayetteville, Arkansas.

does not mean, however, that the directors should not be concerned about delinquencies. If the current $551 in delinquent loans were not collected the credit union would lose an amount equal to dividends for one year. A board member also reported that the local sheriff is reluctant to process small claims. The UARK does not seem to have a well developed collection policy.[19]

A letter from the regional office of HEW reveals that the UARK has had other problems. The letter stated:[20]

> We are sorry to learn from your letter of April 5 [1966] that the officials are experiencing difficulty in holding the annual meeting and in maintaining a full staff of officials. We have asked examiner Bohannon to contact you...

Keeping officials now seems to be less of a problem for the UARK, but it has left some marks on the credit union. Records have been poorly kept as a result of official turnovers. Once while the credit union was without a treasurer, records were taken to the office of a director so that he could work on them in his spare time. The records were almost completely destroyed when a flash fire swept through his office. Most of the records have been restored, but as indicated by the tables in this section, they are still not complete. Mr. Lyell Thompson, current president of the UARK,

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19UARK Federal Credit Union, minutes of meeting of the Board of Directors, meeting May 5, 1970.

20Regional Office of the Department of Health, Education, and Welfare, letter to the UARK Federal Credit Union, dated April 12, 1966.

said that inadequate record keeping has been a constant problem. He said that he was trying to improve the records, but that progress was slow.[21]

The University seems to take a neutral position toward the UARK. The credit union was asked to change its name from University of Arkansas Federal Credit Union so that employees would not think it was a University organization. The University agreed to make payroll deductions for the purpose of helping the credit union collect savings but would not make deductions for the purpose of loan repayments. The University's personnel director says he is neutral toward the credit union. He said that when a new group of employees is hired the credit union sometimes sends a representative to speak with them, but he is not surprised if a representative does not show up.[22]

Survey of University Personnel

To obtain more information about the current and potential operation of the UARK, a questionnaire survey of its members and nonmembers was conducted. Each of the University's 1984 employees were sent a questionnaire. Five hundred and fifty-four (28%) of the questionaires were returned. The responses were tabulated and cross referenced

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[21] Lyell Thompson, private interview held at the University of Arkansas, Fayetteville, Arkansas, August 18, 1970.

[22] Karl R. Leffler, private interview held at the University of Arkansas, Fayetteville, Arkansas, August 19, 1970.

with the help of an IBM 360 computer. The results are presented in the balance of this section.

Many of the results are presented in the form of percentages which are based on the total number of respondents that actually answered a particular question. This does not create a problem since most respondents answered every question. Nevertheless, the exact number of respondents that did not answer a particular question is presented on the printout sheet in Appendix G.

Of the 554 respondents, 234 (42%) said they had been a credit union member at one time or another. However, only 101 are now members of the UARK. At the time the survey was taken, the UARK had 237 members, so less than half of them (43%) returned the questionnaire. Nevertheless, the 101 that did return the questionnaire represent a larger proportion of the responses (18%) than the UARK's total membership represents of all univeristy employee's (12%).

The responses were also skewed with respect to income groups. Response from low income employees was very low, but response from high income employees was very high. Table XXX shows the exact response from various income groups. To help overcome the poor response from low income groups, their replies were frequently isolated for additional study and comparison.

One amazing discovery was that seventy-five of the respondents did not know they were eligible to become a member of the UARK. At least forty-eight of the seventy-five

TABLE XXX

SALARY DISTRIBUTION OF UNIVERSITY EMPLOYEES

Salary Range	Percentage of University Employees in Each Range	Percentage of Respondents in Each Range
Less than $3,000	20.3%	1.7%
$3,000 - $4,999	33.0%	13.3%
$5,000 - $7,499	9.3%	12.6%
$7,500 - $9,999	11.5%	10.0%
$10,000 - $14,999	16.6%	27.4%
$15,000 or more	9.3%	35.0%

have been employeed by the University for more than a year, and nine have been employed for more than twelve years. If these figures are representative of all university employees, 260 employees (13.8%) do not know about the UARK Federal Credit Union. This would indicate that the credit union needs to improve its promotional efforts.

To determine which credit union services were in the greatest demand, employees were given a list of services and asked to indicate those they could use. Their responses are presented below. Services in the greatest demand are presented first.

65.5%	1.	Savings depository
61.0%	2.	Source of loans
43.0%	3.	Payroll deduction
20.0%	4.	Check cashing
19.3%	5.	Life insurance
18.4%	6.	Traveler checks
13.7%	7.	Financial counseling

The results show that savings, loans, and payroll deductions are in far greater demand than the other four services. This should be a strong point for the UARK because it now provides all three; plus it offers the fifth most important service--life insurance. In another question, employees were asked which was the most important to them--a savings depository or loans. They selected loans by a margin of five to three.

Almost all employees use some form of consumer credit, and forty-eight per cent said they would make more use of it in the future. When asked what forms of credit they have used in the past five years, the following responses were obtained:

76%	1.	Oil company credit cards
71%	2.	Retailer credit cards and charge accounts
69%	3.	Commercial bank loans
36%	4.	Retailer instalement credit
31%	5.	Savings and loan
27%	6.	Bank credit cards
21%	7.	Personal loans from friends, relatives, or other individuals
15%	8.	Credit union loans
11%	9.	Consumer finance company loans
1%	10.	Pawnbroker loans
5%	11.	Others

These results compare favorably with those presented in Chapter V. The two major sources of consumer credit are banks and retailers. Finance companies rated below credit unions, but due to the ten per cent limit on interest charges in Arkansas, this was expected.

Another question was used to determine the extent to which the lending institutions specialized in a certain area of consumer finance. The employees were given a list of consumer items commonly purchased on credit and a list of the means by which consumers normally obtain credit. If in the past five years they had used credit to purchase any of the items, they were asked to indicate the means by which they obtained credit. A summary of the results are presented in Table XXXI.

The most obvious conclusion that can be drawn from Table XXXI is that banks play a dominate role in the financing of eight of the twelve items listed. They are also the second largest suppliers of credit for the remaining four items. Banks seem to have their strongest position in the financing of automobiles. Following far behind are finance companies and credit unions, respectively. With respect to auto financing, this is the same way they rank on a national basis, but on a national basis, the gap between the amount of auto financing done by banks and finance companies and credit unions is much smaller.[23]

Retailers were the leading suppliers of credit for three of the items listed. Financing of home appliances and nondurable personal and household goods are the areas in which they had their strongest positions. Retailer installment credit was the means by which about half of all home appliances were financed while retailer credit cards were used to finance almost half the nondurable personal and household goods. Oil company credit cards were used extensively to finance vacations.

Employees have used credit unions to finance all the items listed except nondurable personal and household goods. The largest number of credit union loans has been for the purchase of automobiles. They accounted for over forty-two per cent of all credit union loans. The remaining credit union loans were rather equally distributed among each of the other items listed.

When asked if they had any trouble obtaining credit to purchase any of the items listed in Table XXXI, only

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[23]See Table XIV in Chapter V.

TABLE XXXI

THE MEANS BY WHICH UNIVERSITY EMPLOYEES FINANCED
THE PURCHASE OF VARIOUS CONSUMER ITEMS

Items Financed	Sources of Credit										
	Bank Loan	Bank Credit Card	Oil Credit Card	Retailer Credit Card	Retailer Instal-ment Credit	Savings & Loan	Consumer Finance Company	Credit Union	Pawn Broker	Friends Rela-tives, Ets.	Others
Auto	248	0	7	1	8	2	44	29	0	12	6
Home appliances	37	17	1	61	138	0	7	5	0	2	1
Boats and motors	15	1	0	2	4	2	0	2	0	1	0
Mobile home	6	0	0	0	1	1	6	3	0	0	1
Nondurable personals	6	38	8	76	32	0	0	0	0	1	2
Vacation	17	21	47	0	0	2	2	6	0	5	5
Education	28	0	0	0	1	1	0	4	0	13	11
Medical and death	12	1	0	0	5	1	0	4	0	6	2
Taxes	14	0	0	0	0	4	1	3	0	0	1
Insurance	6	0	0	0	1	1	1	1	0	3	0
Debt conso-lidation	15	0	0	0	0	1	4	7	0	3	0
Repair and etc.	39	2	0	2	8	13	0	4	0	7	3

eighteen (4%) of the respondents said yes. Auto, home appliance, and education loans were the principal areas in which they had trouble. Ten of the eighteen that had trouble obtaining loans earned less than $10,000 a year. None of them earned over $15,000.

Since ninety-six per cent of the employees claimed not to have had any trouble obtaining credit, they should be satisfied with the credit facilities available to them. This point was partially verified by answers to two other questions. Three hundred and seventy-eight of the employees said they have had experience with credit facilities in other states. Seventy per cent of those having experience with credit facilities in other states said that the facilities in and around Fayetteville were as good or better than those in other states. Nineteen per cent had no opinion, and only eleven per cent said that credit conditions in the area were worse than in other states. High prices and inconvenience were given as the major reasons for saying that local credit conditions were worse than in other states.

Information presented in the second section of this chapter indicated that the absence of finance companies and the rather complacent attitude of bankers toward consumer loans made the credit facilities in Fayetteville inferior to those in most of the country. Thus the strong favorable attitude toward local credit facilities was not expected. The favorable attitude is partly explained by the fact that the sample used has a high percentage of high income employees.

They generally do not make use of finance company loans and can easily obtain bank loans.

Employees were presented with a list of eight characteristics people normally desire in financial institutions. They were then asked to select the three characteristics which they considered the most important. Of the eight characteristics listed, price, convenience, and security were selected as the three most desired characteristics. They were followed by courtesy, privacy, information, friendliness, and prestige. A complete summary of the results are presented in Table XXXII.

Next the employees were asked if they felt that credit unions satisfied all the desired characteristics. Two hundred and fifty-five (70%) said yes while one hundred and eight (30%) said no. All those that said no were then asked to indicate which of the eight characteristics credit unions do not satisfy. Their responses are presented in the left hand column below. Seventeen of those that said no were members of the UARK Federal credit Union. Their responses were isolated and are presented in the right hand column. The major difference in the two groups has to do with price. Credit union members are much more impressed with the prices charged by the credit union than are nonmembers.

TABLE XXXII

CHARACTERISTICS OF FINANCIAL INSTITUTIONS THAT UNIVERSITY EMPLOYEES FELT ARE THE MOST IMPORTANT

Characteristic	Most Important	2nd Most Important	3rd Most Important
Convenience	121	113	131
information	18	38	34
Courtesy	19	47	115
friendliness	13	31	41
Privacy	11	67	71
Security	120	96	50
Prestige	0	2	4
Price	215	115	46

48	7	1. Security
36	4	2. Privacy
34	8	3. Convenience
29	1	4. Price
21	0	5. Information
16	1	6. Prestige
11	1	7. Friendliness
3	0	8. Courtesy

Credit unions should probably be pleased that seventy per cent felt that they satisfied all the characteristics, but they should also recognize that how well they overcome their weaknesses will influence their future. If security, privacy, convenience, and price are their weak points, they should concentrate their efforts on improving them.

Four hundred and seventy-five (87%) of the employees indicated that they have a savings account in a financial institution. Their accounts are distributed among various institutions.

302	1. Banks
258	2. Savings and loan associations
72	3. Credit unions
21	4. Other
653	Total

The figures indicate that 475 employees have a total of 653 accounts. The figures also reveal that no more than 72 of the 101 UARK Federal Credit Union members who completed the questionnaire have a savings account at the credit union. Thirty-nine per cent of the employees without a savings account have income in excess of $10,000.

To determine how employees feel about the relative safety of credit unions, they were asked to compare them with banks. The results show that fifty-seven per cent felt they are less safe than banks and only three per cent felt that they are safer than banks. Safety seems to be one of the major weak points of credit unions. It should be recalled from preceding paragraphs that employees considered security the weakest characteristic of credit unions.

3%	1.	Safer than banks
40%	2.	About the same as banks
41%	3.	A little less safe than banks
16%	4.	Much less safe than banks

Thirty one per cent of those taking part in the survey said that they have transferred savings from one financial institution to another to take advantage of higher interest rates. If information presented in previous chapters is correct, people are becoming more conscious of interest rate differentials. As they do, the transfer of funds between competing institutions will increase.

Recommendations

The UARK is now growing at a rapid rate and is probably in better shape than at any other time in its history. The $2,000 collected through payroll deductions each month assures the credit union of a reasonably good growth rate. Certain changes, however, would certainly improve its future success.

Leaders of the UARK have not established a well developed advertising program. This was reflected in the survey of university employees. Approximately fourteen per cent of them did not know that they could join the UARK.

More money and effort should be spent on the credit union's promotion. Full advantage should be taken of the free intra-university mail system.

The UARK should promote those services that are most needed. The survey of employees revealed that savings depository, loans and payroll deductions are desired much more than any of the other services that could be offered. Leaders of the UARK should now concentrate their efforts on improving these three services rather than attempting to initiate new ones.

Sixty-one per cent of the employees surveyed indicated that they could use the loan service of the credit union. Ninety-six per cent of the employees, however, indicated that they have not had much trouble obtaining desired consumer loans. This means that most of them are not desperately in need of the UARK's loan service. Employees may be persuaded to join the credit union but are certainly under no great pressure to do so.

To persuade employees to join, leaders of the UARK should inform them of the credit union's advantages. They should tell them of the high rates banks charge for loans of $75 or less. They should also tell them of the free credit life insurance they receive on each loan and of the free life savings insurance on deposits. Now that share insurance is available, considerable effort should be spent telling employees about it. The employees surveyed picked security as the biggest weakness of credit unions. Share insurance should help change this impression.

Employees indicated privacy as the second biggest weakness of credit unions. The UARK is partly responsible for creating this impression. Its office is open and thus provides very little privacy. Members must discuss their problems within viewing and hearing distance of any other person in the area. The UARK's office should be changed so that when a member comes in he can talk in private with officials.

The UARK needs to tighten its overall operating procedure. Additional planning should be done so that more policies can be developed. Policies would help stop many of the credit unions' current haphazard procedures. For example, there should be a policy of talking to every group of new employees. There should be a policy if not already adopted of requiring all borrowers to sign up for payroll deductions. It has been proven that payroll deductions increase savings and reduce delinquent loans, so it should be used to its fullest advantage.

The UARK should also consider lowering its interest charge on some loans. Its major competitors are banks, and one of them is charging as low as eight per cent on auto loans. If the UARK were to lower its interest charges, it would be in a very good position to compete for all types of loans. Since small loans are not profitable for local banks, the UARK has an exceptional opportunity in this area.

CHAPTER IX

SUMMARY AND CONCLUSIONS

Introduction

This has been a comprehensive study of the current operation of credit unions in the United States. Emphasis was placed upon revealing the current competitive position of credit unions and upon revealing their major present and future challenges. This objective was accomplished by questionnaire surveys of representatives at different levels of the credit union industry. Surveys were conducted in the last five months of 1970. This chapter contains a summary of the findings of the study along with certain conclusions.

Summary

Credit unions are the most numerous of all financial institutions in the United States. By definition they are nonprofit corporations, chartered under state or federal law, which are formed by groups of people with a common bond for the dual purpose of helping each other learn to make the best possible use of their financial resources through regular savings and low-cost credit.

Two Germans--Herman Schulze and Frederick Raiffeisen--are given credit for organizing the first credit unions.

They worked separately, but both were motivated by the same poor economic conditions that existed in Germany around 1850. They each viewed their credit union type organizations as a means of helping poor people improve their economic condition.

Depressing economic conditions were also reponsible for the establishment of the first credit union in North America. A French-Canadian by the name of Alphonse Desjardins established the first credit union in the Province of Quebec to help poor French-Canadians. Desjardins realized that the lack of adequate credit facilities created unnecessary hardships for the poor. In 1908 the first credit union in the United States was organized in Manchester, New Hampshire. Massachusetts was the first of forty-four states to pass a credit union law. In 1934, a federal credit union law was passed.

Presently there are almost 24,000 credit unions with assets in excess of $16 billion and twenty-three million members. Their membership now consists mostly of middle income families rather than the poor for which they were originally organized. Fifty-five per cent of all credit unions are federal, but state-chartered credit unions have fifty-one per cent of total assets.

To accomplish their objective of providing services to their members, credit unions have established an elaborate organization structure. Members form the base of the organization. They organize credit unions which usually associate themselves with a league. A league is a voluntary association of the credit unions in a state, province, country, or other government unit having its own laws. Most leagues are associated with the Credit Union National Association (CUNA). CUNA is associated with the recently created World Council of Credit Unions.

Credit unions provide their members several major services which include extension of credit, savings depository, payroll deduction, insurance, financial counseling, travelers checks, money orders, and check cashing. Extension of consumer instalment credit is the most important service credit unions offer. They are the fourth largest and fastest growing suppliers of this type credit. As of November, 1970, they supplied 12.4 per cent of the total. The three largest suppliers of consumer instalment credit are commercial banks, finance companies, and retailers, respectively.

Surveys of league directors and credit unions revealed that commercial banks and retailers are credit unions' major competitors in the market for consumer instalment credit. Finance companies extend two and one-half times as much credit as do credit unions, but they are considered less of a competitor than are retailers which extend about the same amount of consumer instalment credit as do credit unions. Finance companies evidently appeal to a higher risk market than do credit unions.

Serving as a savings depository is the second most important service credit unions perform. Most savings are obtained by selling shares to members. During the tight money conditions of 1969, many credit unions began using certificates of indebtedness as an additional means of obtaining funds.

In the market for savings, credit unions are out performed by banks and savings and loan associations. Most credit unions pay a higher dividend on shares than banks and savings and loan associations pay on passbook savings, but the margin is getting smaller. If the ceiling on the rates banks can pay on savings were suspended, credit unions would face a very serious challenge.

In the area of legislation, Congress recently passed two major pieces of credit union legislation. The first bill was signed by President Nixon on March 10, 1970. It removed the Bureau of Federal Credit Unions from within the Department of Health, Education, and Welfare and established it as an independent federal agency known as the National Credit Union Administration (NCUA). The second and most important piece of legislation was passed on October 19, 1970. It established a share insurance program for all federal credit unions. State credit unions can also qualify for the insurance.

Share insurance was not supported by all segments of the credit union industry, but the majority now seem to think that it will benefit the growth of credit unions. Preliminary reports indicate that the insurance will stimulate savings.

Credit union leaders are preparing a number of new pieces of legislation, the most important of which is concerned with a national credit union bank. A bank bill has already been introduced in Congress, but no action has yet been taken. Most league directors felt that a bank bill would definitely be passed within the next five years. The trend of credit union legislation is toward more liberalization. Credit union leaders are seeking more and more freedom.

Credit unions face a number of problems that must be solved if they are to continue their rapid growth. A survey of league directors revealed that they consider new technology, competition, better service, and better trained leaders to be the biggest problems faced by credit unions. A survey of credit union managers in CUNA's fifth district revealed that they were more concerned about rising expenses, rising loan delinquencies, competition, and poor leadership. Rising expenses seemed to create a bigger problem for small credit unions than for larger ones.

A case study of one credit union in Arkansas revealed that it faced many problems, but that after a slow start it is now growing rapidly. Payroll deduction is considered one of its biggest achievements. The credit union has suffered from its failure to recognize and satisfy the needs of all those within its common bond. The credit union also faces an unusual competitive position due to the fact that Arkansas' constitution sets the annual limit on all interest charges at ten per cent.

Conclusions

The ability of credit unions to compete for savings in the 1970's seems rather good. Compared with commercial banks and other savings institutions, they have had the most stable inflow of savings even during the tight money period of 1969. They now also have share insurance, and preliminary reports show that it has stimulated savings. The case study of an Arkansas credit union revealed that both credit union members and nonmembers felt that security was one of credit unions' biggest weaknesses. Share insurance should certainly help improve this problem. Also, payroll deduction increases the rate of saving by credit union members. Only fifty-eight per cent of all credit unions now have payroll deduction plans, but an average of five hundred additional credit unions are adding it each year. At this rate, payroll deduction should be a plus factor throughout the 1970's. The credit union industry is likely to obtain a national bank within the next few years. If it does, credit unions will have yet another source of funds.

These factors seem to put credit unions at a competitive advantage in the market for savings. This, however, is no reason why they should relax efforts to attract funds. In recent years their loan-to-share ratio has been increasing. If regulating agencies remove ceilings on deposits at commercial banks and savings and loan associations, these institutions would be in a much stronger position to compete with credit unions. Conditions in 1969 stimulated competing institutions to seek funds through many new devices. There is no reason to think that these challenges will stop. This means that credit unions must be more alert and flexible than ever.

In the market for consumer instalment credit, credit unions have been successful in increasing their share of the market. There is no reason why they should not continue to increase their share. They have, as they must, begun to face the challenge of bank and retail credit cards with various forms of point-of-purchase credit.

While credit unions have been busy increasing their share of the consumer instalment credit market, the composition of their portfolios has been changing. Their portfolios now contain a much higher proportion of automobile paper and a smaller proportion of personal loans than they did twenty years ago. This has taken place during a time in which finance companies were shifting their assets from auto to personal loans because personal loans were more profitable. In many cases, credit unions have been motivated to make auto loans as an alternative to less profitable investments such as government securities or savings and loan shares. Thus, changes in the composition of their portfolios does not mean that credit unions necessarily have made poor decisions, but it does raise some doubt about the value of their increased share of all consumer instalment credit.

At the league level, there is a great deal of concern about the problem of applying new technology to the operation of credit unions. This concern, however, was not shared by the credit union managers surveyed. The credit union managers did not seem to feel that applying new technology was as big a problem or as essential as did league directors. It can not be denied that current technology can help credit unions, especially large ones; but the results obtained indicate that at the credit union level other problems are currently more demanding.

The lack of qualified leaders is one of the biggest problems faced by credit unions. Concern over this problem is shared by credit union leaders at both the league and credit union levels. This is a problem that can be solved with a well planned executive education program. It should receive more attention at all levels of the credit union industry.

Individual credit unions are more concerned about rises in expenses and in loan delinquencies than are league and national leaders. If expenses rise, a squeeze is put on the margin between a credit union's costs and the twelve per cent limit on loan rates. The squeeze has not yet created any serious problems for any but the smallest credit unions; but it has certainly got the attention of most credit unions. If inflation continues, the squeeze between income and expenses will become acute in the 1970's.

National figures indicate that rising expenses are not as big a cause of the squeeze on income as many individual credit unions may think. Only small credit unions have had a significant rise in expenses relative to income. The real problem seems to be upward pressure on dividends. Higher rates paid by competing institutions are forcing credit unions to give more attention to their dividend rates. As they try to pay higher dividends, credit unions are forced to take a closer look at their expenses. Some credit unions have already dropped life savings insurance in order to pay higher dividends, and more are likely to do so in the future.

If the market rate on personal savings accounts continues to rise in the future, credit unions will be under more pressure to pay higher dividends. They could possibly pay higher dividends if they would raise the twelve per cent limit on loans. But if they raise the rates they charge on loans, they will lose one of their advantages over other lenders. Their only other solution is to reduce costs. Cost analysis should become more important to credit unions during the 1970's.

Credit union leaders have developed an ambitious legislative program for the 1970's. The program is designed to give credit unions more freedom to offer more services including checking accounts, credit cards, and deposits. Expansion of the common bond concept is another of their major legislative objectives. The idea is to expand credit unions' services and to make them available to everyone.

The legislative program does not, however, have the full support of all segments of the credit union industry. The division over what direction the program should take is evident at every level of the credit union organization. If the current program is successful, many credit union traditions will be strained if not destroyed. Many leaders fear that the spirit of the credit union movement will be lost. Spirit is not all that may be lost. If the common bond is expanded as many desire, it will have little or no meaning. When this happens, there will be little legal difference in credit unions and mutual savings and loan associations. There will then be no reason why credit unions should continue to receive favorable tax privileges. If they were taxed the same as mutual savings and loan associations, federal taxes could take 1.6 to 4 per cent of gross income. These percentages seem small, but the effect would be the same as a four to nine per cent increase in expenses. And as already indicated, credit unions are already greatly concerned about a rise in expenses. Taxes are a very real possibility and should not be ignored by ambitious credit union leaders trying to make credit unions just like other institutions.

The need to control expenses, overcome strong competition, hire trained executives, and provide more and better service will force credit unions to explore every opportunity open to them. Merger is one of the opportunities they will probably use extensively in the 1970's, especially small credit unions. Service centers is another opportunity that will receive extensive consideration. The use of service centers will certainly increase in those areas in which it is possible for a center to serve the members of several credit unions.

Small credit unions are being put under more and more pressure to grow or liquidate. Rising expenses and the need to qualify for share insurance are major sources of this pressure. The net result will probably be a reduction in the number of small and the number of newly organized credit unions. Some league directors feel that the spirit of the credit union movement is preserved by small credit unions. To the extent that this is true, the credit union movement will lose another of its distinquishing characteristics as the number of small credit unions decline.

The number of federally-chartered credit unions will probably continue to grow at a slow rate while the number of state-chartered credit unions will continue to decline. This pattern was set before the federal share insurance program was passed, but the program should guarantee that the pattern will not change in the future.

The total number of credit unions should stabilize in the 1970's, but assets should continue to grow at their current rate through the mid-1970's. After that time the positive impact of share insurance and payroll deduction will probably decline and cause the growth of savings in credit unions to slow down. A rise in expenses and the need to pay higher dividends may force credit unions to raise loan rates. This means that sometime in the 1970's credit unions will face a crisis. If they do not train good leaders and control expenses, they could lose out to competitors. Large credit unions have the advantages of economies of scale and better trained leaders and are thus the most likely to survive the pressures of the 1970's.

APPENDIXES

APPENDIX A

SUMMARY OF MAJOR CHANGES IN THE FEDERAL CREDIT UNION ACT, 1934-1970

Provision	Original Act of 1934		Major Changes in Each Provision Since 1934
Supervising Agency	Farm Credit Administration (Governor)	1942:	Federal Deposit Insurance Corporation
		1948:	Bureau established in Federal Security Agency
		1970:	Established a National Credit Union Administration as an independent agency
Supervision Fee	$10 a year	1952:	Graduated scale for Federal Credit Union with assets of more than $34,000
Examinations	Audit reports of practice public accountants accepted from federal credit union with assets of less than $25,000	1937:	Permissible exception for federal credit union with assets of less than $25,000 eliminated
Examination Fee	Fee scale to be fixed by Governor to cover expense of examination	1937:	Ability of federal credit union to pay to be considered
Loans:			
Unsecured	Not to exceed $50	1940:	Not to exceed $100
		1946:	Not to exceed $300
		1949:	Not to exceed $400
		1959[a]:	Not to exceed $750
		1968:	Not to exceed $2,500
Secured	Not to exceed $200, or 10% of paid-in and unimpaired capital and surplus to a member		

APPENDIX (Continue)

Provision	Original Act of 1934	Major Changes in Each Provision Since 1934
Maturity	Not to exceed 2 years	1949: Not to exceed 3 years 1959: Not to exceed 5 years 1968: Not to exceed 10 years
Repayment		1959: Loans to be repaid or amortized under regulations of the Bureau
Investment	Loans to members, obligations of U. S. Government, or securities fully guaranteed as to principal and interest by U. S. Government	1937: Loans to other credit unions (not to exceed 25% of capital and surplus) and shares of federal savings and loan associations 1959: Creation of 3 member executive committee authorized, to buy and sell securities and make loans to other credit unions 1964: Obligations issued by banks for cooperatives federal land banks, federal intermediate credit banks, Federal Home Loan Bank Board, or any corporation designated in section 101 of the Government Corporation Control Act as wholly owned government corporation 1965: Loan to student members (not to exceed 5% of assets, raised to 10% in 1966) 1966: Obligations of FNMA and any agency of the Federal Government that guarantees the return of principal and interest on money invested payable to a trust or trustee of the Federal Government

APPENDIX A (Continue)

Provision	Original Act of 1934	Major Changes in Each Provision Since 1934	
		1967:	Loans to credit union directors and to members supervisory or credit committee (not to exceed 20% of unimpaired capital and suplus
		1968:	Permission to invest in state chartered central credit unions, notes of liquidating credit union
Reserves	Entrance fees, fines, and 20% of net earnings before declaration of dividend	1949:	Transfer of funds to reserve discontinued when reserve equals 10% of total shares. Director may require special reserves
		1970:	Transfer of 10% of gross income until regular reserves shall equal 7½% of outstanding loans and risk assets, then 5% of gross income until reserves equal 10%
Area Covered	United States and Territories	1946:	Extension to Panama Canal Zone
		1952:	Extension to Virgin Islands
		1954:	Bureau to examine and supervise District of Columbia credit unions.
		1959:	Extension to all U. S. possessions
Dividends		1937:	Members may declare dividends annually
		1959:	Board of directors (instead of members) may declare dividends semiannually or annually
		1967:	Board of directors may declare dividends annually, semiannually, or quarterly as the bylaws may provide

APPENDIX A (Continue)

Provision	Original Act of 1934	Major Changes in Each Provision Since 1934	
Interest rate	Not to exceed 1% a month on unpaid balance	1946:	Penalty for excessive interest
		1954:	Refund to members permitted
Membership	Persons and organization	1946:	Shares in joint tenancy
Bonding	Board of directors fixes amount of surety bonds	1946:	"Sufficient" surety; payment of premiums by credit unions authorized
		1954:	Authority of Director specified
Passbook	Audit required	1946:	"Passbook" defined
Supervisory committee	Elected by members	1959:	To be appointed by Board of Directors
		1964:	Membership set at 3-5 members
Credit Committee	Meetings at least once a month on notice from treasurer	1946:	Notice from treasurer not required
		1959:	Committee authorized to appoint loan officer
		1967:	Loan officer given more freedom to approve loans
Liquidation	General authority of Governor in involuntary liquidations expressed generally	1946:	Involuntary liquidation procedure detailed
Taxation	State may tax federal credit unions as it does domestic banking corporations	1937:	Exempted from all taxation except on real and personal property

APPENDIX A (Continue)

Provision	Original Act of 1934	Major Changes in Each Provision Since 1934
Director of the Bureau of Federal Credit Union		1969: Authorized to conduct programs to train persons who will operate credit unions or consumer counseling programs which serve the poor
Others:		
Space in federal building		1937: Office space for employee credit unions may be provided free
		1959: Free space permitted if 95% of members are employees
Conversions		1959: Authorized to convert from federal charter to state and vice versa
Oaths		1954: Bureau officials may administer oaths
Services		1959: Authorization to sell and cash negotiable checks and money orders for fee, under bureau regulations
Insurance		1970: Established a federal insurance system for accounts in credit unions (maximum of $20,000 per account)

Source: Social Security Bulletin Statistical Supplement, 1959, p. 105. Changes after 1959 were compiled by the author.

[a] P. L. 86-354 amended several provisions of the Federal Credit Union Act and rewrote the entire act in doing so.

[b] This provision is an amendment to the District of Columbia Credit Union Act and not the Federal law.

Outline of Basic Provisions of Federal Share Insurance Law

(Public Law 91-468)

I. AUTHORITY TO INSURE

SUBJECT	LAW PROVISION
Eligibility for Insurance	The Administrator of the National Credit Union Administration "shall insure the member accounts of all federal credit unions, and he may insure the member accounts of credit unions" chartered by states, the District of Columbia, the several territories, the Panama Canal Zone, or the Commonwealth of Puerto Rico and credit unions operating under the jurisdiction of the Department of Defense (there are presently four of the latter). (Sec. 201 (a))

II. APPLICATIONS FOR INSURANCE

Applying for Insurance	Applications for insurance "shall be made immediately" by federal credit unions. They may be made at any time by state chartered credit unions or a credit union operating under the Defense Department. (Sec. 201 (b))
Agreement of Applicant	Applications "shall be in such form as the Administrator shall provide and shall contain an agreement by the applicant as follows: **(1)** To pay the reasonable cost of such examinations as the Administrator may deem necessary in determining eligibility of applicant (regular federal credit union examinations will be used for this purpose and examinations conducted by state regulatory agencies will be utilized to the maximum extent possible); **(2)** To permit and pay reasonable costs of any necessary examinations for the protection of the Fund and other insured credit unions; **(3)** To permit the Administrator to have access to any information or report made by a public regulatory authority, commission, board, etc.; **(4)** To provide protection and indemnity against burglary, defalcation, and other insurable losses; **(5)** To maintain such regular reserves as required by state law for state chartered credit unions; **(6)** To maintain such special reserves as the Administrator may require for protecting the interests of members or to assure that all insured credit unions maintain regular reserves which are not less than those required under the Federal Credit Union Act; **(7)** Not to issue or have outstanding any account or security the form of which, by regulation or in special cases, has not been approved by the Administrator; **(8)** To pay premium charges as required by the law; **(9)** To comply with the law and regulations prescribed by the Administrator pursuant thereto. (Sec. 201(b))
Approval Criteria	The Administrator is required to consider, before approving an application, the following: **(1)** History, financial condition, and management policies of applicant. **(2)** Advisability of insuring applicant without undue risk to the Fund. **(3)** General character and fitness of applicant's management. **(4)** Convenience and needs of members to be served by applicant. **(5)** Whether applicant is a cooperative association organized for purpose of promoting thrift and creating a source of credit for provident or productive purposes. (Sec. 201(c)(1))
Certification	Upon approval of an application for insurance the Administrator must notify the credit union and issue it a certificate evidencing that it is now an insured credit union. (Sec. 201(e))

SUBJECT	LAW PROVISION
Rejection of Application	The Administrator is required to reject the application of a credit union for insurance if its reserves are inadequate; if its financial condition and policies are unsafe and unsound; if its management is unfit; if insuring it would involve undue risk to the Fund; or if its power and purposes are inconsistent with the promotion of thrift or the creation of a credit source for provident and productive purposes. (Sec. 201(c)(2))
Rejection of Federal Credit Union	The Administrator is required to suspend or revoke a charter of a federal credit union whose application is rejected, unless the credit union, within one year, meets requirements for insurance and becomes an insured credit union. (Sec. 201(d))

III. GOVERNMENT REGULATION

General Powers of Administrator

In carrying out his share insurance duties, the Administrator of the National Credit Union Administration is authorized to:

(1) Make contracts.

(2) Sue and be sued, complain and defend in court.

(3) Handle claims or compromises.

(4) Appoint officers and employes.

(5) Employ experts or consultants or organizations thereof.

(6) Prescribe the manner in which his general business may be conducted.

(7) Exercise all powers granted by the legislation and incidental powers necessary thereto.

(8) Make examinations and require reports and information from insured credit unions.

(9) Act as liquidating agent.

(10) Delegate functions to an officer or employee of the Administration.

(11) Prescribe rules and regulations to carry out the provisions of the law.

(12) Prepare annually a budget for wholly government owned corporations as provided by the Government Corporation Act.

(13) Maintain accounts to be audited annually by the General Accounting Office. (Sec. 209(a))

Cease and Desist Orders

The Administrator is authorized to issue cease and desist orders, and to act to enforce such orders, including taking court action. (Sec. 206)

Removal of Officials

The Administrator may remove or suspend a director, officer, committee member or other person under a number of specified conditions. The law provides for a hearing on the matter and judicial review. Detailed procedures are enumerated in the law. The Administrator may appoint replacements for removed officials pending an election by the members. (Sec. 206(g))

IV. NATIONAL CREDIT UNION SHARE INSURANCE FUND

Creation in Treasury

A National Credit Union Share Insurance Fund is created in the Treasury of the United States as a revolving fund for making payments to shareholders of insolvent insured credit unions, for assistance in liquidation or threatened liquidation of insured credit unions, and for administrative and other expenses of the Fund. All premium payments, all fees for insurance examinations, and all penalties collected by the Administrator shall be deposited in the Fund. (Sec. 203)

Investing Surplus

The Administrator may authorize the Secretary of the Treasury to invest surplus funds in U. S. interest bearing securities, securities guaranteed by the United States, trust and public funds of the U. S., and the income therefrom shall become a part of the Fund. (Sec. 203(c))

Power to Borrow from Treasury

The Administrator is authorized to borrow up to $100,000,000 from the U. S. Treasury to meet requirements of the Fund on terms to be fixed by agreement with the Secretary of the Treasury. (Sec. 203(d))

V. REPORTS — EXAMINATIONS

SUBJECT	LAW PROVISION
Reports of Condition	Each insured credit union is required to make reports of condition upon dates selected by the Administrator, and such other reports as he may require. Financial reports presently required of federal credit unions are to be revised to meet this requirement. (Sec. 202(a)(1))
Penalties	Failure to comply within 10 days will subject the credit union to a fine of not more than $100 for each day of such failure. (Sec. 202 (a))
Use of State Reports	Reports used by state supervisory agencies are to be used to the maximum extent possible. (Sec. 202 (a)(5))
Examinations	The Administrator is authorized to appoint examiners and claim agents and to take legal actions in the courts in connection with the examination of any insured credit union. (Sec. 204) He may accept reports of examination made by any government agency supervising state chartered credit unions. (Sec. 204(d))

VI. PREMIUMS

Certified Statements	Before January 31 of each insurance year each insured credit union shall file a certified statement showing the total amount of the member accounts in the credit union at the close of the preceding year, and the amount of premium charge for insurance due the fund for that year. (Sec. 202(b))
Premium Charge	Each insured credit union is required to pay a premium charge before January 31 of each insurance year equal to 1/12 of 1% of the total amount of member accounts at the close of the year. A formula for computation is prescribed for figuring insurance charges for credit unions which become insured after January 1 or for those chartered during the insurance year. (Sec. 202 (c))
Reduction in Premium	The Administrator is authorized to reduce premium fees when the insurance fund has no outstanding obligations and the fund equals or exceeds the normal operating level of 1% of the aggregate amount of the member accounts in all insured credit unions. (Sec. 202(c)(4))
Special Premium Charge	He is also authorized to levy a special premium charge not to exceed 1/12 of 1% when expenditures of the Fund exceed income in any given year. (Sec. 202(c)(5))
Rebate of Premiums	A refund or rebate of premiums is authorized when a credit union is liquidated if the Fund has no loan outstanding from the Treasury or if such rebate will not jeopardize the Fund. The law details how the rebate will be compared. (Sec. 202(c)(6)(A))
Legal Action	The law authorizes certain legal action by the Administrator to recover from any insured credit union any unpaid premium charge whether or not required reports were filed. (Sec. 202 (e))

VII. REQUIREMENTS OF CREDIT UNIONS

Advertising	Every insured credit union is required to display at each place of business it maintains a sign or signs indicating that its accounts are insured, and to include such statement in advertisements (except in certain types of advertisements). (Sec. 205(a))
Merger or Consolidation	Written approval of the Administrator must be obtained before an insured credit union can merge or consolidate with a noninsured credit union or institution; before transferring assets to a noninsured credit union; before converting to a noninsured credit union or instittution; before merging or consolidating with another insured credit union or assuming liabilities thereof. (Sec. 205(b)(1))
Official Dishonesty	Written consent of the Administrator must be secured before a person convicted of a criminal offense involving dishonesty or breach of trust may serve as a director, officer, committee member or employee. (Sec. 205(b)(1)(D))
Security Devices	An insured credit union must comply with minimum standards for security devices and procedures promulgated by the Administrator. (Sec. 205(e)(1)
Penalties	Failure to comply with any of the above will subject the insured credit union to a fine not to exceed $100 per day for each day of violation. (Sec. 205(e)(3))

VIII. TERMINATING INSURANCE

SUBJECT	LAW PROVISION
Voluntary Termination	Any credit union, other than a federal credit union, may terminate its insured status under specified conditions (majority vote of members and 90 days' written notice.) (Sec. 206(a))
Involuntary Termination	The Administrator may terminate the insured status of a credit union under certain procedures for unsafe or unsound practices, for violation of law, rule, regulation, order, or any condition imposed in writing by the Administrator. The credit union will have the right to a hearing and judicial review. (Sec. 206 (b)(1))
Effective Date	Insurance of member accounts on the effective date of termination will remain in effect for one year, with the credit union paying premiums thereon, and the credit union will remain subject to duties and obligations of an insured credit union. (Sec. 206(d))

IX. PAYMENT OF INSURANCE CLAIM

Liquidation of Insured Credit Union	The Administrator shall close a bankrupt or insolvent insured credit union and appoint himself liquidating agent. He shall pay insured accounts up to $20,000 as soon as possible. (Sec. 207(a))
Defining Extent of Coverage	The Administrator may define the extent of insurance coverage provided for member accounts including accounts in the name of a minor, in trust or in joint tenancy. The law establishes detailed procedures and rules. (Sec. 207(c))
Assistance to Avoid Liquidation	In order to reopen a closed insured credit union or to prevent the closing of an insured credit union threatened with liquidation, the Administrator, at his discretion, is authorized to: (1) make loans to or (2) purchase the assets of or (3) establish accounts in such credit unions or guarantee another insured credit union which assists a credit union in difficulty. Detailed rules are written into the law. (Sec. 208)

X. STATE CREDIT UNIONS

No Discrimination Against State Credit Unions	It is stated that it is not the purpose of the law "to discriminate in any manner against state chartered credit unions and in favor of federal credit unions, but it is the purpose of this title to provide all credit unions with the same opportunity to obtain and enjoy the benefits of this title." (Sec. 210)

XI. RESERVES

New Reserve Formula	The law amends the regular reserve provision of the Federal Credit Union Act (formerly Sec. 17), changing the basis from shares to risk assets and the annual transfer from net to gross income. The new formula provides for an annual transfer of 10% of a credit union's gross income until the regular reserve equals 7½% of outstanding loans and risk assets. After reaching this point, only a 5% transfer of gross income is required until the regular reserve attains 10% of outstanding loans and risk assets. (Sec. 116)

XII. DEPOSITS

Authority to Accept	The law amends the Federal Credit Union Act (formerly Sec. 8) to permit a federal credit union to not only receive from members, but also from other federally insured credit unions payments on shares. (Sec. 107)
Authority to Invest In	The law authorizes a federal credit union to invest in shares, share certificates or share deposits of federally insured credit unions. (Sec. 107)
Acceptance from Non-Members	In the case of credit unions serving predominately low income members, the law permits it to receive from non-members payments on shares, share certificates or share deposits. (Sec. 107)

XIII. OTHER PROVISIONS

Criminal Code	A number of administrative amendments to criminal provisions of the U. S. Code are contained in the law to make them applicable to offenses against credit unions.

Source: Federal Credit Union Observer, November, 1970, pp. 4-6.

Summary Of Proposed Recodification Of Federal Credit Union Act

As Approved by The CUNA International Executive Committee
On Recommendation of the Legal and Legislative Committee

Corporate Powers And Activities

BJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
ırpose of edit Union	The Act (Sec. 1752) defines a "Federal Credit Union" as a cooperative association organized in accordance with the provisions of the Act for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes.	To incorporate the definition of a credit union of CUNA Model Credit Union Act (Sec. 1): "A credit union is a cooperative non-profit association incorporated in accordance with the provisions of this Act for the purpose of encouraging thrift among its members, creating a source of credit at a fair and reasonable rate of interest, and providing an opportunity for its members to use and control their own money in order to improve their economic and social condition."	This is a broader definition of a credit union in keeping with changes in the economy and the present and future needs of the people.
rganization ertificates	The Act (Sec. 1753) provides that any seven or more natural persons who desire to form a federal credit union shall subscribe before some officer competent to administer oaths an organization certificate in duplicate which shall specifically set forth certain information.	To allow the Organization Certificate to be signed before a witness or the signatures to be acknowledged by some official competent to acknowledge.	To simplify the procedures for organizing a federal credit union by making it more convenient for the persons signing the Organization Certificate to have their signatures authenticated.
orrowing Power f Credit Union	The Act (Sec. 1757-8(10)) empowers credit union to borrow, in accordance with such rules and regulations as may be prescribed by the Director of Bureau, from any source, in any aggregate amount not exceeding 50% of its paid-in and unimpaired capital and surplus.	That all language be removed from the Act (or regulations) that imposes borrowing limitations on the credit union.	To better enable credit unions to meet the financial needs of members.
iscounting f Notes	The Act (Sec. 1757 (10)) authorizes federal credit unions to discount eligible paper with Federal Intermediate Credit Banks.	That the provisions limiting discounting of paper to Federal Intermediate Credit Bank be deleted from the law and an unrestricted discounting privilege be substituted.	To provide essential flexibility to credit union operations. Restricting discounting to Federal Intermediate Credit Banks is too narrow a privilege, according to Bureau.
urchase f Assets	The Act (Sec. 1766) gives the Director of the Bureau authority to prescribe rules and regulations concerning merger, consolidation, and dissolution of federal credit unions. Federal Credit Union Rules and Regulations, August 1969, Par. 308, sets forth merger procedures.	To authorize a credit union to sell all or any part of its assets to another credit union or to purchase all or any part of the assets of another credit union; and to further provide that the purchasing credit union may assume any or all of the liabilities of the selling credit union or of the members whether or not they are members of the purchasing credit union; and requiring that the agreement between the selling and purchasing credit unions must be approved by the Administrator.	To facilitate the timely dissolution of a credit union, while conserving its assets and protecting the interests of members.
Liquidation Procedures	The Act (Sec. 1766) gives the Director of Bureau authority to prescribe rules and regulations concerning merger, consolidation, and dissolution of credit unions, and specifies certain policies and responsibilities in connection with voluntary and involuntary liquidation. Federal Credit Union Rules and Regulations, August 1969, (part 310) establishes the policy for liquidation of credit unions.	To incorporate the provisions on liquidation found in the CUNA Model Credit Union Act (Sec. 33(b) (c)), which requires approval of dissolution by majority of members at meeting or in writing, and notification of supervisory department of intent to liquidate. Further prescribes suspension procedure to be followed by department, providing for hearing before issuance of involuntary liquidation notice and appointment of liquidating agent, and right of credit union to request stay of execution by appealing to courts.	To provide a more systematic procedure on dissolution, setting forth rights and responsibilities of all parties thereto.
Donations by Credit Unions	The Act is silent, and the Bureau has ruled donations are not within incidental powers if credit union does not anticipate an immediate, direct and current pecuniary gain or donation does not forward credit union's purpose.	That the board of directors be permitted to authorize donations by the credit union to community, charitable and civic organizations.	To permit credit unions to be better integrated in civic and community affairs.
Incidental Powers	The Act (Sec. 1757) states Federal Credit Union shall have power "to exercise such incidental powers as shall be necessary or requisite to enable it to carry out effectively the business for which it is incorporated."	To authorize a federal credit union to exercise such incidental powers as shall be necessary or requisite to enable it to carry out efficiently the business for which it is organized, including such incidental powers as are generally granted to corporations.	Federal credit unions should be considered as any other corporation with respect to inherent powers.
Overseas Checking Accounts	The Act is silent.	To authorize federal credit unions operating overseas branches to open checking accounts in foreign banks which are correspondents for U. S. banks.	Authority is presently lacking for federal credit unions with overseas branches to open checking accounts in foreign banks, according to the Bureau. This would be particularly helpful to military credit unions.

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Fiscal Agent	The Act (Sec. 1767) authorizes federal credit union, when requested by the Secretary of the Treasury, to act as fiscal agent of the United States and to perform such services as the Secretary of the Treasury may require in connection with the collection of taxes and other obligations due the United States and the lending, borrowing, and repayment of money by the United States, including the issue, sale, redemption, or repurchase of bonds, notes, Treasury certificates of indebtedness, or other obligations of the United States; and to facilitate such purposes the Director shall furnish to the Secretary of Treasury from time to time the names and addresses of all federal credit unions with such other available information concerning them as may be requested by the Secretary of the Treasury. Any federal credit union organized under this Act, when designated for that purpose by the Secretary of the Treasury, shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by the Secretary of the Treasury.	To allow federal credit unions to serve as fiscal agents for units of government in addition to federal, receiving money on deposit from state governments, political subdivisions thereof, and public housing corporations.	To provide a state and its political subdivisions same privileges with respect to federal credit unions as are enjoyed by the federal government.
Cooperation with Government Agencies	Act is silent.	That federal credit unions may perform such tasks and missions as may be requested by any state or political subdivision thereof, or by any federal agency.	To allow federal credit unions to participate in government programs designed to enhance the economic well-being of their state or nation.

II. The Membership

Common Bond	The Act (Sec. 1759) states that credit union membership shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district.	To seek legislation to assure the broadest possible interpretation of the common bond.	To make credit union services available to as many people as possible. Among the areas where liberalization is desired are employment in common geographical area, members of immediate family, surviving spouses, and multiple organizations and parishes.
Members of Liquidated Credit Unions	The Act (Sec. 1759) states that federal credit union membership shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district.	To authorize federal central-type credit unions to extend membership to members of liquidated credit unions in their state.	An implementation of the concept, "Once a member — always a member."
Membership Fees — Annual	The Act is silent.	That an annual membership fee may be set at the discretion of the board of directors for the purpose of paying credit union association dues and/or for education and promotional programs for the benefit of the members.	To provide an added source of funds to finance programs to advance the welfare of credit union members and the movement.
Entrance	The Act (Sec. 1759) refers to payment of an entrance fee by new members.	That the collection of an entrance fee be permissive rather than mandatory.	Need for an entrance fee no longer exists and it is often a nuisance to collect.

III. Officers, Directors, And Committeemen

Title of Officers	The Act (Sec. 1761A) provides that the directors at their first meeting after the annual meeting of the members, shall elect from their number a president, one or more vice-presidents, a secretary and a treasurer, who shall be the executive officers of the credit union.	At the first meeting after the annual meeting of the members, the directors shall elect from their own number a chief executive officer who may be designated as chairman of the board or president, a vice-chairman or vice president(s) a treasurer, and a secretary, of whom the last two may be the same official. The board of directors may employ a chief operating officer in charge of operations whose title shall be either president or general manager; or, in lieu thereof, the board of directors may designate the chief operating officer to be in active charge of the affairs of the credit union.	These optional changes in title of the executive officers would be more meaningful and in line with current usage in other financial corporations.
Number of Directors	The Act (Sec. 1761) provides that the business affairs of a federal credit union shall be managed by a board of not less than five directors. The bylaws (Art. VII) states the number of directors may be changed to an odd number, not fewer than five nor more than 15 by resolution of the board.	That the number of directors on the board consist of an odd number, not less than five.	To eliminate the bylaw maximum of 15 members, allowing each credit union to determine for itself the number of directors.
Executive Committee	The Act (Sec. 1761b) provides board may appoint an executive committee of not less than 3 directors to act for it in purchase of and sale of securities, borrowing of funds, making of loans to other credit unions, and approval of applications for membership.	To authorize the board of directors to appoint an executive committee of not less than three directors, giving it full power to act for the board within any limitations set by the board.	Would expedite essential activities between board meetings.
Investment Officer	The Act (Sec. 1761)(6)(41) makes board of directors responsible for investments other than loans to members. . . . . . . The board may appoint an executive committee of not less than three directors to act for it in the purchase and sale of securities, the borrowing of funds, and the making of loans to other credit unions . . .	To authorize an individual designated by the board of directors to make investments under policies established by the board.	Would provide needed flexibility in day to day operations in the timely purchase or sale of securities.

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Membership Officers	The Act (Sec. 1761b) provides for the appointment of only one membership officer.	To permit the appointment of more than one membership officer at the option of the board of directors.	Some credit unions believe they could operate more efficiently with two or more membership officers.
Credit Committee — Appointment of	The Act (1761c) requires a credit committee of not less than three members be elected at the annual meeting.	That the board of directors be empowered to appoint the credit committee, with the option that the committee may be eliminated entirely and its responsibilities to approve or disapprove loans assigned to a loan officer(s).	Would assure essential flexibility. In some credit unions the credit committee is neither practical nor efficient.
Approval of oans by	The Act (Sec. 1761c) states that no loan shall be made unless it is approved by a majority of the entire committee and by all members of the committee who are present at a meeting at which the application is considered.	That approval of loans by the credit committee be by a simple majority vote.	Present approval requirement is cumbersome and difficult to fulfill in some credit unions.
Loan Officers — Appointment of	The Act (Sec. 1761c) states: The credit committee may, by majority vote of its members, appoint one or more loan officers.	To authorize the board of directors to appoint loan officer(s) and prescribe rules under which they may perform.	To be consistent with proposed optional appointment of the credit committee.
Reports by	The Act (Sec. 1761c) states: Each loan officer shall furnish to the credit committee a record of each transaction approved or not approved by him within seven days of the date of the filing of the application or request.	To repeal the requirement that loan officers must report to the credit committee at least every seven days. Frequency of reports to be governed by rules of the directors.	Frequency of reports by loan officers should be governed by situation in individual credit union.
Insurance for Officials	The Act. (Sec. 1761a) provides compensation of officials as indicated above. The Bureau has ruled that a credit union can obtain group accident insurance to protect directors and committeemen while on official business. With this exception they may not purchase accident, health, life, or other insurance for officials because to do so would constitute compensation.	To exclude a credit union's purchase of life, accident, and health insurance for its officers, directors and committeemen from being deemed compensation within the meaning of the Act.	Allowing insurance to be provided officials on a full time basis would preclude injustice to survivors because of difficulty in interpreting "on credit union business."

IV. Savings And Deposits

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Shares, Par Value	The Act (Sec. 1753) states: The par value of shares shall be $5 each.	To give the board of directors authority to establish the par value of shares in $5 multiples, not less than $5, and not more than $25.	To oblige small shareholders to adopt thrift habits consistent with current financial conditions and allow board to deal with small, inactive accounts.
Checking Accounts	The Act is silent.	To authorize credit unions to establish for members checking accounts, with reserves for such accounts to be set by the Administrator with the consent of the National Credit Union Board.	To permit a fuller range of service to members.
Deposit Accounts— Establishment of	The Act is silent.	To permit credit unions to operate deposit accounts, limited to members and treated as capital. These accounts to be subject to conditions established by the board of directors.	Would provide fuller range of service to members.
Interest Rate On	Present Act makes no provision for deposits.	That legislation be drawn to allow variable interest rates on deposits.	A variable rate of return will enable unions to provide different types of deposit accounts.
Variable Dividend Rates	The Act (Sec. 1763) states that dividends shall be paid on all paid up shares outstanding at the end of the dividend period.	To authorize variable dividend rates on shares.	To allow flexibility in classification of shares, consistent with a flexible deposit program.
Dividend Frequency	The Act (Sec. 1763) authorizes the board of directors to declare a dividend annually, semi-annually, or quarterly, as the bylaws may provide.	That the frequency for payment of dividends be removed from the Act so as to be completely at the discretion of the board of directors.	To allow credit unions to pay dividends according to custom of other institutions in its locality, and to give members greater flexibility.
Multiple Party Accounts	The Act (Sec. 1759) states: Shares may be issued in joint tenancy with right of survivorship with any persons designated by the credit union members.	To add a new multiple party account provision enabling credit unions to offer members (1) a multiple party share account with survivorship; (2) a share-deposit account of trustee for beneficiary; (3) a multiple party share-deposit account without survivorship; (4) a multiple party share-deposit account which includes one or more non-member parties.	Permits persons who have no will or who wish to avoid probate to enjoy the advantages of an account during their lifetime and to name one or more beneficiaries to receive money in account after their death. Also, a member with other parties to his account need not lose control of his money since he can restrict withdrawals.

V. Loans

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Interest Rates — Incidental Charges	The Act provides (Sec. 1757)(5) rates of interest not exceeding 1 percentum per month on unpaid balances, inclusive of all charges incidental to making the loan.	To remove from the Act the requirement that the interest rate be inclusive of all charges incidental to making the loan.	It is economically unsound for the credit union to make certain types of loans, such as real estate, and pay the incidental costs.
Maximum	As above.	That the interest rate shall not exceed 1% per month, unless otherwise approved by the Administrator.	A higher return on loans may be necessary, due to increased costs of operation and acquisition of capital, if credit union is to maintain full-range of services to members.
Interest Refunds — Frequency of, Rate of	The Act (Sec. 1761(b)(14)) empowers board of directors, subject to Bureau regulations, to authorize an interest refund to members of record at the close of business on the last day of any dividend period in proportion to the interest paid by them during the dividend period.	To permit the interest refund period to be other than the dividend period and to provide for variable interest refund rates.	To offer greater flexibility as to period for which interest refund is paid and to permit selectivity with respect to loans which will receive refund.

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Loan Maturity	The Act (Sec. 1757) states credit unions may make loans with maturities not exceeding five years and certain secured loans with maturities not exceeding ten years.	To remove all restrictions in Act on loan maturities.	To grant the board of directors discretion to set loan maturities since it is better able to evaluate needs and ability to repay of members.
Unsecured Loan Limit	The Act (Sec. 1761c) provides an unsecured loan limit of $2,500 where credit union has unimpaired capital and surplus of $100,000 or more; where capital is less than $100,000, the unsecured limit is the greater of 2½% of unimpaired capital and surplus or $200. Same section provides overall limitation that no loan may be made to any member if, upon the making of that loan, the member would be indebted to the federal credit union upon loans made to him in an aggregate amount which would exceed $200 or 10 per centum of the credit union's unimpaired capital and surplus, whichever is greater.	To remove the unsecured loan limit from the Act, allowing the board of directors to set it. However, to retain the overall limit on loans to any individual.	To grant the board of directors discretion to set unsecured loan limit since it is better able to evaluate needs and ability to repay of members.
Lines of Credit and Credit Cards	The Act is silent.	To allow federal credit unions to establish lines of credit for their members and enable them to use credit cards and other money-transfer-type instruments or systems. To encourage full reciprocity of credit cards in all credit unions.	To provide a fuller range of service to members, consistent with contemporary business practices.
Participation Loans	The Act (Sec. 1757(14)) allows a federal credit union to purchase from any liquidating credit union notes made by individual members of the latter.	To empower a federal credit union to participate with other credit unions, corporations, or financial organizations, in loans to its members or in loans to members of another credit union.	Would enhance the ability of credit unions with limited share capital to serve lending needs of members.
Federally Guaranteed Loans	The Act is silent.	To establish a program similar to that of the Small Business Administration under which the federal government would guarantee the loans made to credit union members having limited incomes, as defined by federal standards.	There are federally guaranteed programs for overseas credit unions, college and vocational students, small businessmen, farmers, and home improvements. This concept should be extended to persons with limited incomes who wish to borrow from credit unions.
Officer Borrowing and Endorsing	The Act (Sec. 1757 (5) & (6)) imposes special restrictions as to security, maximum amounts, and approval of applications on loans to officers, directors and committeemen. Also prohibits their endorsing for borrowers.	That all restrictions be lifted with respect to borrowing or endorsing of notes by officers, directors, and committeemen, except that any loans in excess of $2,500 plus pledged shares would require approval of the board of directors.	To place officer borrowing privileges on a basis more comparable to those of other members, while retaining a special safeguard on larger loans.

VI. Other Services

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Secondary Services	The Act (Sec. 1757) provides that in accordance with the rules and regulations prescribed by the Director of Bureau, credit unions may sell to members negotiable checks (including travelers checks) and money orders, and cash checks and money orders for members, for a fee not to exceed the direct and indirect costs incidental to providing such service.	That a credit union be allowed to collect, receive and disburse monies in connection with the sale of travelers checks, money orders, or other money-type instruments, and for such other purposes as may provide benefit or convenience for members or potential members.	Would offer better and fuller services for credit union members. The Director of the Bureau suggested permitting federal credit unions to furnish secondary services to potential as well as to actual members.
Purchase of Members' Contracts	The Act is silent.	To authorize a credit union to purchase conditional sales contracts and similar instruments executed by its members.	Would provide better service to the members of a credit union.
Insurance Programs	The Act is silent and the Bureau has ruled that it is not within the incidental powers of credit union to sell individual or group life, accident or health insurance to members.	To authorize federal credit unions to purchase or otherwise acquire on a group or individual basis insurance coverage and programs on behalf of its members.	To enable federal credit unions to offer more complete line of financial services to their members.
Financial Counseling and Other Beneficial Services	The Act is silent.	To authorize credit unions to contribute to, support and participate in any non-profit service facility whose services will benefit the credit union or its membership.	To enhance the credit union's ability to teach money management habits and to provide remedial advice to members with financial problems.
Annuities — Tax Sheltered	The Act is silent.	To authorize credit unions to serve as custodians of tax sheltered annuities as provided for self-employed persons under the Smathers-Keogh Act (H. R. 10).	A valuable service to members, particularly those who are self-employed. Will also attract additional capital for credit union.
Trust Fund Administration	The Act is silent.	To grant credit unions trust powers with particular emphasis on administering estates.	To offer a broader range of financial services to members and their families.

VII. Investments

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Investment in Other Credit Unions	The Act (Sec. 1757(8)(G) provides that a federal credit union shall have the power to invest its funds in shares or deposits of any central credit union in which such investments are specifically authorized by the board of directors of the federal credit union making the investment.	To authorize credit unions to deposit or purchase shares in other credit unions without limitations — further that anything in the Act in conflict with this proposal be eliminated.	Provide greater liquidity within the credit union movement and to allow credit unions to invest fully in other credit unions.
Loans to Other Credit Unions	The Act (Sec. 1757(8) provides that loans may be made up to 25% of the unimpaired capital and surplus of the lending credit union.	To delete from the Act the limitation that loans to other credit unions in the aggregate may not exceed 25% of the lending credit union's paid-in and unimpaired capital and surplus.	Provide greater liquidity within the credit union movement.
Investment in Service Corporations	The Act (Sec. 1757(8) provides for investment in government securities, in insured financial institutions, and in central credit unions.	In addition to existing privileges, to permit funds not used in loans to members to be invested in capital shares, obligations, or preferred stock issues of any agency or association organized either as a stock company, mutual association or membership corporation, provided the membership or stockholdings, as the case may be, of such agency or association are confined or restricted to credit unions or organizations of credit unions, and provided the purposes for which such agency or association is organized are designed to service or otherwise assist credit union operations.	To provide necessary financing for organization furnishing essential services to credit unions and/or credit union members, such as a data processing facility, mutual fund, etc.
Investment In Cooperative Societies	The Act is silent.	To empower federal credit unions to invest in cooperative societies, as provided in the CUNA Model Credit Union Act: "Funds not used in loans to members may be invested in shares of a cooperative society organized under local or national cooperative laws in the total amount not exceeding 10% of the shares, deposits, and surplus of the credit union." (Sec. 23(4))	To allow investment in mutual self-help organizations which may be of benefit to credit union members.
Loans to Credit Union Associations	The Act is silent. Bylaws (Art. XII) — Loans may be made only to members (individuals) or to a member other than a natural person in amounts not in excess of shareholdings in the credit union extending the loan.	To authorize credit unions to make loans, in aggregate not exceeding 1 percent of the capital of the credit union to any credit union association of which the credit union is a member. Such loans may be made on secured or unsecured basis, with interest and with such maturity, deeds and conditions as the board of directors shall authorize.	To strengthen the ability of credit union associations to finance programs and activities of benefit to credit unions and their members.
Investment in Corporate Securities	The Act (Sec. 1757) does not include authority for investment in corporate securities.	To authorize credit unions to invest up to 5% of their shares in any corporate stock or bond which appears on a list approved by the Administrator annually or quarterly. The Administrator should prepare and maintain a list of not less than 30 corporations.	To permit diversification of credit unions investment portfolio similar to practice of other financial institutions, with necessary supervisory safeguards.

VIII. Reserves And Liquidity

Reserves	The Act (Sec. 1762) provides for transfer of 20% of net earnings to regular reserves until 10% of total shares attained.	That the regular reserve be based on risk assets and that the formula for transfer to the reserve be at the rate of 10% of gross income until such time as the reserve fund reaches 5% of risk assets; that it then be decreased to 7% of gross income until such time as the reserve fund reaches 6% of risk assets and then be decreased to 5% of gross income until the reserve fund attains a maximum of 7% of risk assets. Subsequent transfers required only to maintain 7% maximum.	Reserves should be related to basic risk assets, such as loans outstanding, according to independent studies by the Bureau of Federal Credit Unions and CUNA International. A transfer to reserves based on gross income would accelerate reserve accumulation in high-expense credit unions which often have greater need for reserves. A declining formula for transfer to reserves would give relief to the older and better established credit unions with ample reserves already accumulated.
Central Bank System for Credit Unions	The Act is silent.	That the staff report on a Central Bank System for credit unions be forwarded to the CUNA Districts without recommendation, but with a memorandum setting forth the pros and cons of the proposals.	The Recodification Committee did not have sufficient time before the CUNA District Meetings to fully and adequately evaluate the tentative proposal on a Central Bank System.
Authority for Federal Centrals	The Act is silent.	To authorize federal centrals to operate with the same powers as are accorded state-chartered central credit unions.	No special authority exists in the Act for the operation of federal central credit unions, according to the Bureau. It would strengthen the dual chartering system if federal centrals were empowered to operate in the same way that state-chartered centrals operate.

IX. Government Supervision

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Government Regulations	The Act (Sec. 1766) provides that the Director of the Bureau may prescribe rules and regulations for the administration of the Federal Credit Union Act.	That regulations issued by the Administrator be subject to the advice and consent of the National Credit Union Board.	To provide that the regulations issued by the regulatory agency would receive broader consideration by giving representatives of federal credit unions a voice in their formulation.
Government Fees	The Act (Sec. 1756) provides that the Director of the Bureau shall fix a scale of examination fees to be paid by federal credit unions, giving due consideration to the time and expense incidental to such examinations and the ability of the federal credit union to pay such fees.	That fees be determined by regulations established by the Administrator, with the consent of the National Credit Union Board.	To give broader consideration of fees by giving representatives of federal credit unions a voice in their determination.
Reports to Administrator	The Act (Sec. 1761) requires that a record of the names and addresses of the members of the board and such committees and of the officers of the credit union be filed with the Bureau within ten days after their election or appointment.	To provide that the Administrator be furnished only the names and addresses of the executive officers of the credit union, as well as the same information concerning the chairman of the supervisory and credit committees.	The Director of the Bureau suggested that it is only necessary the Supervisor be furnished the names and addresses of the executive officers of the credit union, plus the same information about the chairman of the supervisory and credit committees.

X. Territorial Application

SUBJECT	PRESENT PROVISION	PROPOSAL	COMMENTS
Trust Territories of Pacific Islands	The Act (Sec. 1772) states: The provisions of this Act shall apply to the several states, the District of Columbia, the several Territories and possessions of the United States, the Panama Canal Zone, and the Commonwealth of Puerto Rico.	To include any of the trust territories of the United States in the Federal Credit Union Act.	The Trust Territories of the Pacific Islands were entrusted to the United States by the United Nations in 1947. They have petitioned the U. S. Congress to be included in the Federal Credit Union Act.

ACTION OF U. S. FORUM

May 13, 1970

The report of the Special Study Committee on Recodification of the Federal Credit Union Act was adopted and referred to the incoming Executive committee with instructions to proceed to implement at as early a date as is practicable.

Added to the report was a proposal to require the supervisory committee to perform or have performed one comprehensive annual audit per year and to permit it to make additional audits it deems necessary.

Finally, the U. S. Forum recognized the outstanding achievement of the Special Study Committee and extended its members appreciation and commendation for their exceptional service.

Source: Federal Credit Union Observer, March, 1970, pp. 2-7.

APPENDIX D

SHARE INSURANCE SYMBOL THAT MUST BE DISPLAYED BY ALL INSURED CREDIT UNIONS

NCUA

APPENDIX E

SCHEDULE OF THE AMOUNT RECOVERED BY CREDIT UNIONS ON DELINQUENT LOANS OF VARIOUS LENGTHS

Length of Delinquency	Average Recovery On the $1
Less than 2 months	90¢
6 months	67¢
12 months	45¢
2 years	23¢
3 years	15¢
6 years	1¢

Source: The Credit Union Magazine, May, 1970, p. 45.

APPENDIX F

THE QUESTIONNAIRE SENT TO LEAGUE DIRECTORS AND THE QUESTIONNAIRE SENT TO CREDIT UNION MANAGERS

LEAGUE QUESTIONNAIRE

1. Statistics on your league:

   ________________Number of credit unions represented
   ________________Number of members in these credit unions
   $________________Total assets of these credit unions
   $________________Total value of shares in these credit unions
   $________________Loans outstanding

2. How many years has your league been in operation? __________

3. The credit unions that are now members of your league represent what percent of the potential membership of the league? ______________%

4. In which of the following areas do you feel credit unions face their strongest competition?

   ___________1. In competing for members' savings
   ___________2. In competing for consumer credit

5. In competing for savings, which of the following do you consider to be credit unions strongest competitors? (Please place the number of your choice in the blanks provided.)

   1. Banks
   2. Savings and loan
   3. Series E savings bonds
   4. Series H savings bonds
   5. Other federal government securities
   6. Municipal bonds
   7. Stocks
   8. Others (Please list)

   ______strongest competitor
   ______2nd strongest
   ______3rd strongest

6. In competing for consumer credit which of the following do you consider to be credit unions strongest competitors? (Please place the number of your choice in the blanks provided.)

   1. Personal bank loans
   2. Bank credit cards
   3. Finance companies
   4. Retailer credit and charge cards
   5. Retailer instalment credit
   6. Savings and loan
   7. Pawn brokers
   8. Others (Please list)

   ______strongest competitor
   ______2nd strongest
   ______3rd strongest

7. Which of the following statements best describes the condition of credit unions in your league for the past year?

   ______1. Excessive liquidity, or
   ______2. Excessive demand for loans

8. Do you think credit union members are becoming more interest conscious? ______Yes ______No

9. Have any of your league members given up life insurance in order to pay higher dividends? ______Yes ______No

10. If yes, approximately how many have done so in the past 2 years? __________ Do you think more will do so in the future? ______yes ______No

11. As you know, most credit unions can charge a maximum of 1% per month on the outstanding balance of loans. Do you think an increase in this rate is necessary? ______Yes ______No Please comment.

(In the actual questionnaire, a four inch space was left between each of the following questions.)

12. Do you think that credit unions are in danger of losing their present tax privileges? ______Yes ______No Please comment.

13. Do you think competition between credit unions and other financial institutions will intensify during the next decade? ______Yes ______No Please comment.

14. For years the credit union industry has hoped for a central bank. Do you think they will achieve this objective within five years? ______Yes ______No What do you feel would be the advantages and disadvantages?

15. How do you think the new deposit insurance for credit unions will influence their future growth and development?

16. What do you think are the <u>three</u> major challenges credit unions will face in the 1970's? Please list and comment.

17. How are the credit unions in your league preparing to meet these challenges? Please give some specific examples.

18. If you could, how would you change the legal environment under which credit unions now operate?

19. If you could, how would you change the present organization structure of the credit union industry and why?

20. What new services do you think credit unions will offer in the next ten years?

APPENDIX F (Continue)
CREDIT UNION QUESTIONNAIRE

1. Name of your credit union: ______________________________

2. Location: ______________________________

3. Type of charter:

A		B	
________	State	________	Associational
________	Federal	________	Occupational
		________	Residential

4. Year the charter was issued: ____________________

5. Size of your credit union:

(A) Assets $ ______________
(B) Shares $ ______________
(C) Loans Outstanding $ ______________
(D) Borrowed Funds $ ______________
(E) No. of members ______________
(F) Deliquent Loans $ ______________

6. In which of the following areas do you feel your credit union faces its strongest competition?

________ 1. In competing for members' savings
________ 2. In competing for consumer credit

7. In competing for savings, which of the following do you consider to be your strongest competitiors? (Please place the number of your choice in the blanks provided)

1. Banks
2. Savings and loan
3. Series E Savings bonds
4. Series H savings bonds
5. Other federal government securities
6. Municipal bonds
7. Stocks
8. Others (Please list)

______ Strongest competitor
______ 2nd strongest
______ 3rd strongest

8. In competing for consumer credit which of the following do you consider to be your strongest competitors? (Please place the number of your choice in the blanks provided)

1. Personal bank loans
2. Bank credit cards
3. Finance companies
4. Retailer credit and charge cards
5. Retailer installment credit
6. Savings and loan
7. Pawn brokers

______ Strongest competitor
______ 2nd strongest
______ 3rd strongest

9. What effect have recent increases in the rate paid on deposits by competing financial institutions had on your credit union? (It may be necessary to check more than one)

________1. Caused a small reduction in the growth rate of savings
________2. Caused a substantial reduction in the growth rate of savings.
________3. Caused a small increase in the rate of savings withdrawal
________4. Caused a substantial increase in the rate of savings withdrawal
________5. Caused you to increase your dividend rate
________6. Caused you to raise the rate charged on loans
________7. Little or no effect
________8. Others (Please explain)

10. Below is a list of challenges that are faced by many credit unions. Please indicate those you feel are <u>currently</u> the most challenging for <u>your credit union</u>. (Place the number of your choice in the blanks on the right)

1. Rising expenses
2. Rising rate of loan deliquency
3. Lack of qualified leaders
4. Lack of cooperation from members
5. Lack of cooperation from employer
6. Lack of cooperation from the league
7. Lack of cooperation from the national organizations
8. Lack of growth in membership
9. Current high level of unemployment among members
10. Small number of potential members
11. Ceiling on the rate that can be charged on loans
12. Low return on share accounts
13. Savings are growing slower than loan demands
14. Failure to attract young people
15. Aggressive competition for loanable funds
16. Aggressive competition for credit
17. Excessive work caused by legal requirements
18. Meeting the needs of the poor
19. Poor investment opportunities for excess funds
20. Other (Please state them)

_____Most challenging
_____2nd most challenging
_____3rd most challenging
_____4th most challenging
_____5th most challenging

11. Reconsider the list of challenges given above and indicate those that you feel are the most challenging for the <u>whole credit union industry</u>. (Give numbers only)

________1. Most challenging
________2. 2nd most challenging
________3. 3rd most challenging
________4. 4th most challenging
________5. 5th most challenging

12. Which of the following statements best describes the condition of your credit union for the past year?

________1. Excessive liquidity
________2. Excessive demand for loans

13. For the past two years the liquidity of your credit union has:

________1. Increased
________2. Decreased

14. Which of the following statements best describes your expenses as a percentage of gross income for the past two years.

________1. Rising slowly
________2. Rising rapidly
________3. Declining slowly
________4. Declining rapidly
________5. No change

15. Below is a list of expenses commonly incurred by most credit unions. Please indicate those that have been either rising or falling as a percentage of total expenses. (Please place the number of your choice in the blanks provided).

1. Salaries
2. Borrowers protection insurance
3. Life saving insurance
4. League dues
5. Surety bond premium
6. Examination and supervision fees
7. Interest on borrowed money
8. Cost of space occupied
9. Educational expenses
10. Depreciation
11. Communications
12. Promotion
13. Others (Please list)

A - Rising	B - Falling
________ The fastest	________ The fastest
________ 2nd fastest	________ 2nd fastest
________ 3rd fastest	________ 3rd fastest

16. Is your credit union participating in any program to help low income consumers? ________Yes ________No.

17. Does your credit union make a special effort to attract young members? ________Yes ________No.

18. What rate of interest per month are you now charging on the following types of loans?

________% 1. Automobile
________% 2. Mobile home
________% 3. Personal loans of less than $300
________% 4. Personal loans of $300 or more

19. Has your credit union undertaken any of the following?

_________1. Selling of travelers checks
_________2. Selling of money orders
_________3. Cashing of members checks
_________4. Selling of promissory notes to individuals
_________5. Use of electronic data processing
_________6. Payroll deduction
_________7. Established a preapproved line of credit for members
_________8. Issued a credit card

20. Most credit unions have not undertaken all of the operations listed in the preceeding question, but many are now considering them. Do you think your credit union will undertake any more of them within the next two years? ________Yes _______No. If yes, please indicate which one(s) by listing its number(s). _________________________

21. If it were legal in Arkansas, would you raise any of your interest charges above 10%? ________Yes ________No. Please comment.

22. Does your credit union support the new deposit insurance legislation now in Congress? _______Yes ________No. Please explain.

23. Are you satisfied with the present operation of all segments of the credit union industry? _______Yes _______No. If no, please explain.

24. Do you feel that a central bank operated by the credit union industry would benefit your credit union? _______Yes _______No. Please explain.

25. Do you know of any new credit unions in your area that will be chartered soon? _______Yes ______No. If yes, please give a brief description.

APPENDIX G

Letter, Questionnaire and Tabulated Results of the Questionnaire Sent to University of Arkansas Employees.

Letter

Dept. of Finance
BA 111H

Enclosed is a questionnaire designed to help evaluate the potential contribution a credit union could make to the well-being of university employees. As you are probably aware, there is already a small but rapidly growing credit union on campus. Named the UARK Federal Credit Union, it is owned and operated by university employees.

In answering this questionnaire you will assist your credit union to better understand and to meet your needs. In addition, your answers will contribute to my research on the national credit union industry being undertaken as a doctoral thesis under supervision of University of Arkansas faculty.

Thank you for your help.

Sincerely

Charles Edmonds

Charles Edmonds

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Enclosure

APPENDIX G (Continue)

Questionnaire

DO NOT SIGN: All replies are confidential.

There are more credit unions in the United States than banks and savings and loans combined. They are cooperative self-help thrift and loan institutions composed of individuals bound together by some tie such as a common employer. Credit unions operate under charters granted by either the various states or the federal government. Of the 23,000 now in operation, 12,584 have federal charters.

GENERAL INFORMATION

1. Have you ever been a member of a credit union? 1:A[1] Yes 1:B No.

2. Are you a member of the local credit union for university employees? 2:A Yes 2:B No.

3. If no, have you been aware that you are eligible to become a member? 3:A Yes 3:B No.

4. Below is a list of some of the services that can be offered by a credit union. Please place a check beside those that you think you could use.

   4:A 1. Savings
   5:A 2. Source of loans
   6:A 3. Facilities for cashing checks
   7:A 4. Financial counseling
   8:A 5. Selling travelers checks
   9:A 6. Payroll deduction (automatic monthly deduction from your check for saving and/or repayment.)
   10:A 7. Life insurance

5. Credit unions have three major purposes. Which one do you think would be most important to you?

   11:A 1. Promotion of thrift by savings
   11:B 2. Making useful loans to members at reasonable cost
   11:C 3. Helping members use their savings and credit more effectively

---

[1]The numeric number represents a variable and the alphabetic number represents a subsection under the variable. This information is needed to interpret the printout which follows this questionnaire.

SAVINGS FACILITIES

1. As compared to banks, how would you rate the safety of credit unions?

   12:A 1. Safer than banks
   12:B 2. About the same as banks
   12:C 3. A little less safe than banks
   12:D 4. Much less safe than banks

2. Do you have a savings account in a financial institution?
   13:A Yes 13:B No.

3. If yes, please indicate the type institution(s) in which it is held.

   14:A 1. Bank
   15:A 2. Savings and loan
   16:A 3. Credit union
   17:A 4. Other (Please list)

4. Have you ever moved savings from one institution to another to take advantage of higher interest rates? 18:A Yes 18:B No.

5. Are you satisfied with the financial institutions available to you in Washington County? 19:A Yes 19:B No.

6. If no, please indicate why by checking those desirable characteristics listed below that local institutions <u>do not</u> possess.

   20:A 1. Convenience
   21:A 2. Information
   22:A 3. Courtesy
   23:A 4. Friendliness
   24:A 5. Privacy
   25:A 6. Security
   26:A 7. Prestige
   27:A 8. Reasonable return on savings
   28:A 9. Reasonable charge for loans
   19:A 10. Other (Please explain)________________
   Addition Comments:____________________

CREDIT FACILITIES

1. Do you think that in the future you will make more use of credit? 30:A Yes 30:B No.

2. Below is a list of the means by which consumers obtain credit, If you have used any of these during the past 5 years or so, please indicate the source of credit by checking the appropriate blank(s).

31:A 1. Commercial bank loans
32:A 2. Bank credit cards
33:A 3. Oil company credit cards
34:A 4. Retailer credit cards and charge accounts
35:A 5. Retailer instalment credit
36:A 6. Savings and loan
37:A 7. Consumer finance company loans
38:A 8. Credit union loans
39:A 9. Pawn broker loans
40:A 10. Personal loans from friends, relatives, or other individuals
41:A 11. Others (Please list)

3. Column "A" is a list of purposes for which consumers frequently need credit. Column "B" is a list of the sources of credit. If in the last 5 years you have used credit to purchase any of the items in column "A", please locate the source(s) of credit in column "B" and place its number in the blank beside the item purchased. (For example: I recently borrowed $500 from a bank to purchase an automobile. Banks are number 1 in column B, so I put 1 in the blank beside automobiles in column A.)

A

42:A-K 1. Automobile
43:A-K 2. Furniture, home furnishings, and household appliances
44:A-K 3. Boats and motors
45:A-K 4. Mobile home
46:A-K 5. Nondurable personal and household goods
47:A-K 6. Vacation
48:A-K 7. Education
49:A-K 8. Medical and funeral expenses
50;A-K 9. Taxes
51:A-K 10. Insurance
52:A-K 11. Debt consolidation
53:A-K 12. Repair and modernization of home

B

1. Commercial bank loan
2. Bank credit cards
3. Oil company credit cards
4. Retailer credit cards
5. Retailer instalment c credit
6. Savings and loan
7. Consumer finance company loans
8. Credit union loans
9. Pawn broker loans
10. Personal loans from friends, relatives, or other individuals
11. Other (Please list)

4. Did you have difficulty obtaining credit for any of the purposes listed in column "A"? 54-A Yes 54-B No.

5. If yes, please indicate the purpose(s) for which you had difficulty obtaining credit. Give the appropriate number(s) from column "A". 55-66:A

6. If you wished to obtain a debt consolidation loan, could you obtain the loan in Washington County? 67:A Yes 67:B No

7. If yes, from what institution(s)?

   68:A 1. Commercial
   69:A 2. Credit union
   70:A 3. Finance company
   71:A 4. Other (Please list)

8. Studies have shown what people want from the financial institutions which extend them credit. A list of these "wants" is given below. Which of them is most important to you? (Place the number of your choice in the blanks provided.)

   1. Convenience
   2. Information
   3. Courtesy
   4. Friendliness
   5. Privacy
   6. Security
   7. Prestige
   8. Price

   72:A-H Most important
   73:A-H 2nd most important
   74:A-H 3rd most important

9. In your opinion, do credit unions satisfy all the wants listed in the preceding question? 75:A Yes 75:B No. If no, please list the number(s) of those that you feel they do not satisfy. 76-83:A

10. Have you ever obtained credit in another state? 84:A Yes 84:B No.

11. If yes, how do the credit facilities available to you in Washington County compare with those in other states?

    85:A 1. Generally better than in other states
    85:B 2. Generally worse than in other states
    85:C 3. About the same as in other states
    85:D 4. No opinion

12. Which of the following characteristics were most responsible for your answer to the preceding question? (Place the number of your choice in the blanks provided.)

    1. Convenience
    2. Information
    3. Courtesy
    4. Friendliness
    5. Privacy
    6. Security
    7. Prestige
    8. Price

    86:A-H Most responsible
    87:A-H 2nd most responsible
    88:A-H 3rd most responsible

CLASSIFICATION DATA

1. Marital status: 89:A single
   89:B married
   89:C other

2. Sex: 90:A M 90:B F

3. How many members are there in your family including yourself, your spouse and children. 91:A-L

4. How long have you been a full-time employee of the University? 92:A-L years.

5. Please check the appropriate blank in each of the following

A. AGE

1.	93:A	under 25
2.	93:B	25 - 34
3.	93:C	35 - 44
4.	93:D	45 - 54
5.	93:E	55 - 64
6.	93:F	65 or older

B. ANNUAL INCOME:

1.	94:A	Less than $1,000
2.	94:B	$1,000 - $1,999
3.	94:C	$2,000 - $2,999
4.	94:D	$3,000 - $3,999
5.	94:E	$4,000 - $4,999
6.	94:F	$5,000 - $7,499
7.	94:G	$7,500 - $9,999
8.	94:H	$10,000 -$14,999
9.	94:I	$15,000 or more

APPENDIX G (Continue)

COMPUTER TABULATION OF RESPONSES FROM
THE UNIVERSITY OF ARKANSAS EMPLOYEES AT FAYETTEVILLE
(Variable correspond to those presented in the preceding questionnaire)

Variables	Subsections under each variable												No
	A	B	C	D	E	F	G	H	I	J	K	L	Answer[a]
VARIABLE 1	234	313	0	0	0	0	0	0	0	0	0	0	7
VARIABLE 2	101	445	0	0	0	0	0	0	0	0	0	0	8
VARIABLE 3	385	75	0	0	0	0	0	0	0	0	0	0	94
VARIABLE 4	363	0	0	0	0	0	0	0	0	0	0	0	191
VARIABLE 5	337	0	0	0	0	0	0	0	0	0	0	0	217
VARIABLE 6	110	0	0	0	0	0	0	0	0	0	0	0	444
VARIABLE 7	76	0	0	0	0	0	0	0	0	0	0	0	478
VARIABLE 8	102	0	0	0	0	0	0	0	0	0	0	0	452
VARIABLE 9	237	1	0	0	0	0	0	0	0	0	0	0	316
VARIABLE 10	107	1	1	0	0	0	0	0	0	0	0	0	445
VARIABLE 11	147	249	95	1	0	0	0	0	0	0	0	0	62
VARIABLE 12	13	196	201	80	0	0	0	0	0	0	0	0	64
VARIABLE 13	475	72	0	1	0	0	0	0	0	0	0	0	6
VARIABLE 14	302	0	0	0	0	0	0	0	0	0	0	0	252
VARIABLE 15	258	0	0	0	0	0	0	0	0	0	0	0	296
VARIABLE 16	72	2	0	0	0	0	0	0	0	0	0	0	480
VARIABLE 17	21	3	0	0	0	0	0	0	0	0	0	0	530
VARIABLE 18	171	376	0	0	0	0	0	0	0	0	0	0	7
VARIABLE 19	406	116	0	0	0	0	0	0	0	0	0	0	32
VARIABLE 20	33	0	0	0	0	0	0	0	0	0	0	0	521
VARIABLE 21	17	0	0	0	0	0	0	0	0	0	0	0	537
VARIABLE 22	18	0	0	0	0	0	0	0	0	0	0	0	536

[a]This column indicates the number of employees that did not answer the question that corresponds to each variable. In many cases, all employees did not need to answer a question.

Variables	A	B	C	D	E	F	G	H	I	J	K	L	No Answer[a]
	Subsections Under Each Variable												
VARIABLE 23	14	0	0	0	0	0	0	0	0	0	0	0	540
VARIABLE 24	5	0	0	0	0	0	0	0	0	0	0	0	549
VARIABLE 25	2	0	0	0	0	0	0	0	0	0	0	0	552
VARIABLE 26	3	0	0	0	0	0	0	0	0	0	0	0	551
VARIABLE 27	68	0	0	0	0	0	0	0	0	0	0	0	486
VARIABLE 28	62	0	0	0	0	0	0	0	0	0	0	0	492
VARIABLE 29	20	2	0	0	0	0	0	0	0	0	0	0	532
VARIABLE 30	249	271	0	0	0	0	0	0	0	0	0	0	34
VARIABLE 31	381	0	0	0	0	0	0	0	0	0	0	0	173
VARIABLE 32	150	0	0	0	0	0	0	0	0	0	0	0	404
VARIABLE 33	419	0	0	0	0	0	0	0	0	0	0	0	135
VARIABLE 34	394	0	0	0	0	0	0	0	0	0	0	0	160
VARIABLE 35	197	0	0	0	0	0	0	0	0	0	0	0	357
VARIABLE 36	173	0	0	0	0	0	0	0	0	0	0	0	381
VARIABLE 37	59	0	0	0	0	0	0	0	0	0	0	0	495
VARIABLE 38	84	0	0	0	0	0	0	0	0	0	0	0	470
VARIABLE 39	4	0	0	0	0	0	0	0	0	0	0	0	550
VARIABLE 40	116	0	0	0	0	0	0	0	0	0	0	0	438
VARIABLE 41	25	0	0	0	0	0	0	0	0	0	0	0	529
VARIABLE 42	248	0	7	1	8	2	44	29	0	12	6	0	197
VARIABLE 43	37	17	1	61	138	0	7	5	0	2	1	3	281
VARIABLE 44	15	1	0	2	4	2	0	2	0	1	0	0	527
VARIABLE 45	6	0	0	0	1	1	6	3	0	0	1	0	536
VARIABLE 46	6	38	8	76	32	0	0	0	0	1	2	1	389
VARIABLE 47	17	21	47	0	0	3	2	6	0	5	5	0	448
VARIABLE 48	28	0	0	0	1	1	0	4	0	13	11	1	495
VARIABLE 49	12	1	0	0	5	1	0	4	0	6	2	1	522
VARIABLE 50	14	0	0	0	0	4	1	3	0	0	1	0	531
VARIABLE 51	6	0	0	0	1	1	1	1	0	3	0	0	541
VARIABLE 52	15	0	0	0	0	1	4	7	0	3	0	0	524
VARIABLE 53	39	2	0	2	8	13	0	4	0	7	3	2	473
VARIABLE 54	18	487	0	0	0	0	0	0	0	0	0	0	49
VARIABLE 55	4	2	0	0	0	0	0	0	0	0	0	0	548
VARIABLE 56	4	0	0	0	0	0	0	0	0	0	0	0	550
VARIABLE 57	0	0	0	0	0	0	0	0	0	0	0	0	554
VARIABLE 58	1	0	0	0	0	0	0	0	0	0	0	0	553

Variables	Subsections Under Each Variable												No Answer[a]
	A	B	C	D	E	F	G	H	I	J	K	L	
VARIABLE 59	0	0	0	0	0	0	0	0	0	0	0	0	554
VARIABLE 60	0	0	0	0	0	0	0	0	0	0	0	0	554
VARIABLE 61	3	0	0	0	0	0	0	0	0	0	0	0	551
VARIABLE 62	0	0	0	0	0	0	0	0	0	0	0	0	554
VARIABLE 63	0	0	0	0	0	0	0	0	0	0	0	0	554
VARIABLE 64	0	0	0	0	0	0	0	0	0	0	0	0	554
VARIABLE 65	1	0	0	0	0	0	0	0	0	0	0	0	553
VARIABLE 66	1	0	0	0	0	0	0	0	0	0	0	0	553
VARIABLE 67	367	29	0	0	0	0	0	0	0	0	0	0	158
VARIABLE 68	343	0	0	0	0	0	0	0	0	0	0	0	211
VARIABLE 69	45	0	0	0	0	0	0	0	0	0	0	0	509
VARIABLE 70	60	0	0	0	0	0	0	0	0	0	0	0	494
VARIABLE 71	13	0	0	0	0	0	0	0	0	0	0	0	541
VARIABLE 72	121	18	19	13	11	120	0	215	4	0	0	0	33
VARIABLE 73	113	38	47	31	67	96	2	115	0	0	0	0	45
VARIABLE 74	131	34	115	41	71	50	4	46	0	0	0	0	62
VARIABLE 75	255	108	0	0	0	0	0	0	0	0	0	0	191
VARIABLE 76	34	1	0	0	0	0	0	0	0	0	0	0	519
VARIABLE 77	21	0	0	0	0	0	0	0	0	0	0	0	533
VARIABLE 78	3	0	0	0	0	0	0	0	0	0	0	0	551
VARIABLE 79	11	0	0	0	0	0	0	0	0	0	0	0	543
VARIABLE 80	36	0	0	0	0	0	0	0	0	0	0	0	518
VARIABLE 81	48	0	0	0	0	0	0	0	0	0	0	0	506
VARIABLE 82	16	0	0	0	0	0	0	0	0	0	0	0	538
VARIABLE 83	29	0	0	0	0	0	0	0	0	0	0	0	525
VARIABLE 84	378	155	1	0	0	0	0	0	0	0	0	0	20
VARIABLE 85	39	43	231	72	0	0	0	1	0	0	0	0	168
VARIABLE 86	103	10	22	17	5	31	3	95	1	0	0	0	267
VARIABLE 87	67	20	42	27	28	29	1	45	0	0	0	0	295
VARIABLE 88	45	22	54	31	28	32	4	26	0	0	0	0	312
VARIABLE 89	76	444	23	0	0	0	0	0	0	0	0	0	11
VARIABLE 90	379	161	0	0	0	0	0	0	0	0	0	0	14
VARIABLE 91	76	103	86	142	69	31	12	3	0	1	0	0	30
VARIABLE 92	58	75	77	42	34	20	8	14	6	24	9	17	45
VARIABLE 93	40	130	126	143	84	16	0	0	0	0	0	0	15
VARIABLE 94	0	3	6	46	26	68	54	147	189	0	0	0	15

APPENDIX H

RECENT CHARGES IN THE TAXATION OF MUTUAL SAVINGS BANKS, COOPERATIVE BANKS AND SAVINGS AND LOAN ASSOCIATIONS

Provisions in the 1969 Tax Reform Act changed the tax treatment of mutual finance institutions. The old sixty-forty rule established by the Revenue Act of 1962 was changed so that over a period of ten years it will become the forty-sixty rule. The following table indicates the exact change for each year.

For Taxable Year Beginning in:	Per Cent of Net Income That Can be Added Tax Free to Reserve
1969	60
1970	57
1971	54
1972	49
1973	49
1974	47
1975	45
1976	43
1977	42
1978	41
1979	40

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THE FUTURE OF CREDIT UNIONS:
GROWTH OR STAGNATION?

Abstract of thesis submitted in partial fulfillment
of requirements for the degree of
Doctor of Philosophy

By

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DISSERTATION ABSTRACT

The general purpose of this study was to evaluate the operation and problems of credit unions in the United States. More specifically, the study attempted to evaluate the contributions of credit unions, to reveal their major problems, to evaluate their competitive position among financial institutions, and to evaluate the influence of current and proposed credit union legislation.

To accomplish the stated purposes, the credit union industry was surveyed at various levels. A questionnaire was sent to all credit union leagues in the United States. Another questionnaire was sent to selected credit unions in the fifth district of the Credit Union National Association. A third questionnaire was sent to all potential members of the UARK Federal Credit Union at the University of Arkansas. The three surveys provided information about all levels of the credit union industry. Additional primary data were gathered through interviews and letters. An extensive survey of secondary data was used to support primary data.

From the study it was possible to conclude that the competitive position of credit unions for personal savings in the 1970's will probably be good. Their inflow of savings was relatively stable in the past, especially in the tight money period of 1969-1970. Preliminary reports also show that the new share insurance program will contribute to their competitive position.

Credit unions continue to increase their share of the consumer instalment credit market, and there is no reason why they should not continue to do so. Credit cards, check credit and other point-of-purchase

credit devices do, however, pose a challenge to credit unions. Also, credit unions now have a much higher percentage of auto paper in their portfolios than they did fifteen years ago. Finance companies have indicated that auto loans are less profitable than other type consumer instalment loans.

The league directors and credit union managers surveyed in this study felt that credit unions will face stronger competition for savings and consumer credit in the 1970's than in the 1960's. Commercial banks and savings and loan associations were considered their two strongest competitors in the market for savings. Banks and retailers were considered their strongest competitors in the market for consumer instalment credit. Banks were considered the strongest overall competitor.

Credit union leaders have developed an ambitious legislative program for the 1970's. The program is designed to give credit unions freedom to offer more services. Expansion of the common bond concept is a major legislative objective. The idea is to expand credit union services and to make them available to more people. The industry is not, however, in complete agreement on the legislative program. Some leaders fear an increase in freedom will subject credit unions to adverse influences such as loss of the original credit union spirit and present tax privileges.

Credit unions are confronted with a variety of problems. At the league level, there was a great deal of concern about the problem of applying new technology to the operation of credit unions. This concern was not shared by the credit union managers surveyed. The lack of qualified leaders was considered a problem by leaders at both the league and credit union levels.

Individual credit unions are more concerned about increased expenses and loan delinquencies than are league and national leaders. Rising expenses have not yet created serious problems for any but the smallest credit unions. If inflation continues, the margin between income and expenses will decline in the 1970's. To help prevent this, credit unions will be forced to do more cost analysis.

Small credit unions are being put under more pressure to grow or liquidate. Rising expenses and the need to qualify for share insurance are major sources of this pressure. The net result will probably be a reduction in the number of small and newly organized credit unions.